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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2 P.M.
Text as Prepared for Delivery
March 1, 2000

N. CINNAMON DORNSIFE
Nomination
To be
United States Executive Director for the Asian Development Bank

SENATE COMMITTEE ON FOREIGN RELATIONS

Mr. Chairman, Mr. Ranking Member, and Members of the Committee, I am honored to appear before this committee as the nominee for the position of United States Executive Director for the Asian Development Bank.

My interest in Asia and the Pacific extends back for more than twenty years. My life's work has been devoted to working on issues affecting Asia and the Pacific, as well as the promotion of deeper understanding between the United States and Asia. I have extensive experience in the region, have lived in Asia for twelve years, and speak two Asian languages, Bahasa Indonesia and Filipino. After graduating from the Johns Hopkins School of Advanced International Studies in 1977, I worked with the Office of International Cooperation and Development at the U.S. Department of Agriculture as a Technical Assistance Officer in Asia Programs. I then researched integrated rural development issues at the World Bank before joining the Asia Foundation in 1979, where I worked for thirteen years, including six years in the Indonesia field office in Jakarta. In 1992, I joined the U.S.- Asia Environmental Partnership Program, a Bush Administration initiative linking U.S. and Asian businesses, governments and non-governmental organizations to address shared environmental problems.

Since joining the U.S. office at the ADB in 1994 as the U.S. Alternate Executive Director, I have been privileged to be a member of the team that has made a real difference in the way the Bank operates. I have seen the Bank become a more transparent and accountable institution, emphasizing performance-based assistance, improving project quality, and increasing beneficiary participation. The Board has approved nearly fifty new policies, including anti-corruption, good governance, and information disclosure, and in September 1999 reaffirmed poverty reduction as the Bank's overarching mandate.

In partnership with the IMF and the World Bank, the Asian Development Bank was a leader in addressing the financial crisis that struck Asia in 1997, both in supporting

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policy-based reforms in the financial sectors, and in addressing the far-reaching social costs of the crisis, through the provision of safety nets in the most severely affected countries.

Based in large part on the findings of a Board mission led by my predecessor, former U.S. Executive Director Linda Tsao Yang, the Bank is refocusing and revitalizing its private sector development strategy. As the Bank's own resources are dwarfed by the massive domestic and international investment flows to the region, this strategy presents an opportunity to catalyze additional resources to address the development needs of the region.

With the strong support of the U.S. Executive Director's office, U.S. businesses have played a key role in the Bank's activities, ranking first among member countries in procurement to the Bank for the period 1995-1999.

U.S. Treasury Secretary Summers, in a statement to the Development Committee of the World Bank and the IMF in September 1999, outlined four basic conditions for sustainable development and poverty reduction:

1. **Sound and transparent economic management**, including market-encouraging macro-economic policies conducive to private enterprise, and financially viable banking institutions;

2. A **policy framework which focuses U.S. more on poverty considerations** by integrating poverty reduction and growth objectives;

3. **Priority attention to human development**, particularly the provision of far stronger and more efficient basic education and health services to equip the poor to respond more effectively as opportunities improve;

4. **Good governance**, including fully functioning institutions incorporating transparency, accountability, the rule of law, and participation of civil society.

If given the opportunity to serve as the U.S. Executive Director, I would draw on my past experiences, especially my six years as Alternate Executive Director, and my more than twenty years' association with the region, to work to further strengthen the implementation of this strategic vision for sustainable development and poverty reduction in the Asia Pacific region.

Thank you for your attention and consideration. I look forward to answering any questions you may have.

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For Immediate Release
March 2, 2000

"COMBATING INTERNATIONAL MONEY LAUNDERING" REMARKS OF SECRETARY LAWRENCE H. SUMMERS ON INTERNATIONAL MONEY LAUNDERING TO THE BAFT, ABA AND SIA

I would like to talk to you today about international money laundering. Let me first say that much of what we are doing to combat money laundering has been greatly helped by recent discussions between Treasury and bodies such as the BAFT, ABA, and SIA. We look forward to continuing these mutually beneficial discussions and working together to achieve real progress in combating money laundering.

Anyone who has followed events over the last six months knows that money laundering is a growing problem that affects virtually every country in the world. We have recently witnessed an executive at a bank in New York admit her guilt in a conspiracy in which she and her husband ran an operation that helped launder millions of dollars in Russian criminal proceeds. We have heard that the brother of a former head of state allegedly laundered millions of dollars of drug money by exploiting legitimate private banking facilities at another American bank. And we have read recent reports that $70 billion out of a total $74 billion that flowed from Russia to offshore centers in 1998 moved through accounts in the tiny island of Nauru.

In a world where capital can silently traverse the globe with the push of a button, proceeds of crime can move just as quickly and just as quietly. This makes it even harder to detect money laundering.

Former IMF Managing Director Camdessus has estimated the amount of laundering at two to five per cent of the world's gross domestic product – almost $600 billion even at the lowest end. Having said that, it is hard to be confident about any estimates owing to the secretive nature of the process of money laundering.

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Combating this scourge is important for three reasons.

- First, laundering is a crucial adjunct to the underlying crimes that generate the money, whether drug trafficking, kidnapping or other forms of crime. However bloodless money laundering may seem, there is often a violent reality at its core. Tackling dirty money gives us more weapons to fight the underlying crimes. As is often noted, it took an accountant to catch Al Capone.

- Second, money laundering facilitates foreign corruption, undermining U.S. efforts to promote democratic institutions and economic development around the world.

- Third, money laundering risks undermining the integrity of our financial system. When dirty money finds its way into American banks, the reputations of all involved suffer.

In the past year, the Administration has intensified its already considerable efforts to combat money laundering. Last September, Attorney General Reno and I announced the Administration's first National Money Laundering Strategy, a broad-based international and domestic program to combat dirty money.

Under the leadership of Deputy Secretary Stuart Eizenstat at Treasury and Deputy Attorney General Eric Holder at the Justice Department, we have been implementing the dozens of action items outlined in the 1999 Strategy.

Moreover, in addition to our normal budget requests this year, I have asked for $15 million to set up a centralized account to implement key items in the 2000 strategy. The strategy will be released next week by Deputy Secretary Eizenstat and Deputy Attorney Holder.

Today I want to focus on the growing threat of international money laundering. Let me divide my remarks into three parts:

- First, the problems posed by jurisdictions that are too lax in their approach to money laundering and the measures we are taking within our existing authority to tackle this problem.

- Second, new legislation we are proposing that would better equip us to combat international laundering and penalize jurisdictions that fail to comply with international standards.

- And third, what the financial institutions in the U.S. must do to better protect themselves against dirty money.

I. Source Countries and Destination Countries

If we are to make progress in our efforts to combat money laundering, we must focus on jurisdictions that provide the raw material and on those that provide the finished product. That is to say, we should focus on countries that have become major sources or destinations for dirty money.

Let me be clear: New York, London, Hong Kong and other developed financial centers are no strangers to money laundering: there can be little doubt that much of the world's dirty money flows through these financial centers. But the U.S. and its partners are taking aggressive action to curb money laundering.

Today I want to highlight countries that have yet to take action against dirty money before discussing what we are doing to encourage them to combat money laundering without our existing authorities.

Lax jurisdictions.

Crime is universal. But some countries export more of it than others. Countries lacking an effective rule of law pose a disproportionate threat to the wellbeing of more stable societies. They are a major source of cross-border flows of dirty money.

And some countries appear more willing than others to import the proceeds of crime. Jurisdictions with inadequate financial supervision are often the ultimate destination of these flows. Money that begins life as the proceeds of a drug deal or an illegal arms trade is often laundered in one of the more than 50 offshore centers around the world.

These havens offer strict bank secrecy laws and "economic citizenship" that allow criminals to escape the legal reach of their countries of origin. In addition many offer zero tax and stamp duty and facilities for establishing offshore "shell" companies that disguise the true owners.

Let me give you some prominent examples of both "source" and "haven" countries:

- Crime continues to flourish in Russia due to the lack of the rule of law. Russian organized crime conducts operations in Russia and around the world, hurting law-abiding Russians more than anyone else. Recognizing this, Minister Putin pledged last October to push for passage of an effective money laundering law. We encouraged the Russian government to act on this measure expeditiously. To date, however, the Russian government has still not enacted meaningful reforms.

- Colombia remains the leading supplier of drugs to the U.S. that in turn are a major source of dirty money in this country. The Colombian Black Market Peso Exchange that drugs traffickers use to disguise the origins of their money is probably the biggest laundering market in this hemisphere, reportedly exceeding $5 billion a year. Criminal organizations in Mexico and Nigeria also pose large risks to neighbors and the rest of the world.

- In the absence of proper anti-money laundering laws, Nauru has proved a popular conduit for funds flowing out of Russia. Russian organized crime has also exploited Nauru's lax regulations by employing middlemen to establish charters or open bank accounts in non-Russian names. Due to international pressure, Nauru recently has taken steps to amend its banking secrecy laws and we are working with its government to deepen these reforms.

- Dominica has also benefited from weak regulation. It offers low-fee "economic citizenship", confidential finance and "virtual" gambling. Recently a new government was elected that pledged to eliminate economic citizenship. We will work with the new Dominican government towards this objective and push for a wider review of other laws in Dominica.

- Liechtenstein is an established offshore center that still has not adequately joined international efforts to combat dirty money. It offers anonymous accounts, bearer shares, and complete banking secrecy. Although laundering has been a criminal offense since 1993, its laws are not well implemented. Four investigators oversee the entire financial sector.

- Cyprus has recently taken comprehensive steps to combat international laundering, and is reviewing its laws and authority to deal with attempts to circumvent international sanctions. Nevertheless, the Milosevic regime has continued to use Cyprus's financial system, according to international regulators. We want to encourage the Government of Cyprus in its efforts to deal with this problem.

We are proposing new legislation next week that would enable us to better encourage lax jurisdictions to take action against money laundering. I will turn to these new proposals in a few moments.

But let me first mention a number of ways that we have been working, within our existing authority, to encourage both "source" and "haven" jurisdictions to combat dirty money.

First, working at the international level, we have achieved broad consensus on the range of measures that governments need to adopt to combat laundering.

- We are a leading member of the 26 nation Financial Action Task Force that was launched by the G-7 in 1989. The FATF has set the standard for effective counter-money laundering with its 40 recommendations and peer review. Members of regional FATF-style bodies in the Caribbean, Eastern Europe, and the Asia/Pacific region have joined the effort, and new FATF-style bodies are beginning to emerge in Africa and South America. We welcome and support these efforts to strengthen regulatory controls and improve cooperation between law enforcement and regulators.

- FATF has also recently committed to take action against jurisdictions that have failed to join this global movement. FATF will issue a report in June listing some of the world's worst offending money laundering havens. Last month, the FATF announced that Austria – one of its founding members – would be suspended as of June 15 of this year unless the new government introduces and supports a law to abolish anonymous passbook accounts. We welcome the Austrian government's pledge to meet FATF's conditions and will be monitoring its progress closely.

Second, we have acted to publicize the worst offending jurisdictions and warn U.S. financial institutions to apply especially close scrutiny in their transactions with these countries. For example:

- Last year the U.S. and the U.K. issued a joint advisory against Antigua and Barbuda after attempts were made to weaken its laws against laundering. Antigua has since largely rectified this. But more needs to be done to bring Antigua up to international standards. We also stand ready to issue financial advisories against countries that appear on the FATF's list of offending money laundering havens in June.

Third, at a bilateral level we are helping countries to tackle their root problems of crime and corruption and pushing for the enactment and implementation of effective counter-money laundering regimes. For example:

- The U.S. government is working directly with Moscow to push for effective anti-money laundering legislation. To help Colombia, the President has proposed a $1.6 billion package, most of which targets drug production and the operation of the drugs trafficking organizations, while Treasury is coordinating inter-agency efforts to close the Black Market Peso Exchange. And, with the support of the U.S. and our partners, Mexico is tightening implementation of money laundering laws, while Nigeria has pledged to introduce new laws to clamp down on criminal finance and official corruption.

Fourth, through programs of the international financial institutions we are pressing to reduce corruption and encourage source countries to adopt statutes to fight money laundering. For example:

- The I.M.F. has incorporated the goal of taking effective action against crime and corruption as part of its ongoing lending dialogue with Russia. The Administration has also worked with its G7 colleagues to encourage international financial institutions, including the World Bank and the IMF, to develop systems of financial safeguards and transparent practices in their lending to Russia to ensure that funds lent to Russia are used for their intended purposes.

And fifth, we are taking parallel action against offshore centers that provide a haven for tax evasion. This is critical, because many of the incentives that havens offer to tax evaders also prove attractive to money launderers. These include lack of transparency and weak regulation.

- The OECD will issue a report in June identifying the world's worst tax havens. It will be interesting to see which countries appear on both the FATF's list for money laundering and on the OECD list for tax evasion. In our FY2001 budget request, we have also proposed legislation that would allow us to target tax havens by requiring individuals to report most payments to offshore tax havens.

II. The International Counter-Money Laundering Act.

Let me say that we have been pleased by the interest shown by members of Congress in combating money laundering. We thank Representatives Leach, LaFalce, Velazquez, Waters, Roukema, McCollum, King and Vento, and Senators Grassley, Schumer, Coverdell and Levin in addressing these issues.

I think it is fair to say that our approach has been built on the foundations of bills proposed in recent months and share many of their characteristics. In addition, the money laundering bill proposed by the administration last fall shares a key provision with a number of these bills – namely, that foreign corruption should serve as a predicate offense for a U.S. prosecution against money laundering. We look forward to working with the leadership in the Senate and House Banking committees to enact effective legislation to combat international money laundering.

The U.S. government and its partners have made genuine progress in tackling international money laundering. But the range of weapons that we have to protect ourselves from the worst offending havens, financial institutions, and individuals is limited. At one end of the scale, we can issue financial advisories as we have done in Antigua. At the other, we can apply sweeping economic sanctions against countries that the President finds pose a national security threat to the United States.

As the President said in his State of the Union, there is a need for new legislation to combat money laundering.

That is why early next week we will be working with Congress to introduce the International Counter-Money Laundering Act. Our legislation would provide important new tools, filling the wide gap between advisories and full-blown sanctions.

Under our proposal, if the Secretary of the Treasury, in consultation with key Cabinet members, makes a determination that a given nation, foreign institution or type of international transaction poses a primary money laundering concern, the Secretary could then select from a series of measures. These would range from requiring new reporting requirements on U.S. financial institutions that are doing business with the affected entity, to barring U.S. financial institutions from opening or maintaining correspondent accounts with countries or foreign institutions that pose a money laundering threat.

The new measures are designed to be graduated, discretionary, and targetable. Graduated, so we can calibrate our action to be proportionate to the threat. Discretionary, so we can integrate these tools into our more active bilateral and multilateral diplomatic efforts to persuade offending jurisdictions to change their laws. And targetable, so we can focus our response on the precise threat we confront in each specific jurisdiction. Deputy Secretary Eizenstat will describe this legislation in more detail next week when we issue the 2000 strategy.

III. Protecting the U.S. Financial System.

In addition to the measures taken by this Administration to combat international money laundering, the private sector also has grave responsibilities.

U.S. financial institutions are the first line of defense against money laundering. In general, they take this role very seriously. We were pleased to note, for instance, that several U.S. banks, recently cut off correspondent relations with banks from Nauru based on their own assessment of the risks involved.

But more can be done. Last year, in our National Money Laundering Strategy, I called for a review of whether additional guidance was appropriate for banks in their dealings with high-risk accounts, including accounts held by wealthy foreign individuals. We have concluded that such guidance is an appropriate and necessary concomittant of an effective strategy. But it must be appropriately crafted to take into account the competitive concerns of banks and to ensure that it does not interfere with their ordinary business.

Next week, when Deputy Secretary Eizenstat unveils the 2000 strategy, he will discuss the collaborative process in which we will engage to work out the details of such guidance. This will involve consultations with every interested party, including privacy advocates, the financial sector, regulators and others. The Deputy Secretary will also say more about other critical steps we will be taking to combat domestic and international money laundering.

IV. Conclusion.

We live in a new global economy, one that is driven by economic integration. Globalization has bought unparalleled wealth to U.S. citizens and brought emerging markets onto the ladder of prosperity. But if integration is going to continue to work, we must deal effectively with forces that threaten to undermine it including dirty money. That is why we have been vigorously engaged in a wide-ranging effort to confront global money laundering. And it is why we are proposing new legislation to bolster our counter-money laundering capacity. We look forward to working with the financial sector, members of Congress, the regulatory agencies and others in ensuring that effective legislation is enacted soon. Thank you very much.

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EMBARGOED UNTIL 2:30 P.M.
March 2, 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 $17,042 million of publicly held securities maturing March 9, 2000, and to pay down about $42 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $8,187 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 $2,784 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 $914 million into the 13-week bill and $729 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 MARCH 9, 2000

March 2, 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 DZ 1	912795 EZ 0
Auction date	March 6, 2000	March 6, 2000
Issue date	March 9, 2000	March 9, 2000
Maturity date	June 8, 2000	September 7, 2000
Original issue date	December 9, 1999	March 9, 2000
Currently outstanding	$11,869 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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For Immediate Release
March 6, 2000

"Priorities for Economic Policy in a New American Economy"
Remarks by Treasury Secretary Lawrence H. Summers
Finance Conference on the New Economy
Boston College
Boston, MA

Thank you. I am delighted to be here. Let me especially thank my friend Congressman Markey, and Father William Leahy, the President of Boston College, for inviting me to be with you for this event.

Today I want to reflect for a few minutes on three fundamental questions for the future.

- First, what is new about the "new" economy?
- Second, why has the American economy performed so well in this new era?
- Third, what are the right broad strategies for taking advantage of the opportunities that a new economy presents?

I. The Foundations of a New Economy

Ten years ago in Chicago I called my wife – simply to tell her that I was in a car that had a telephone. Seven years later, traveling abroad, I was handed a mobile phone to talk to (then) Secretary Rubin about the IRS. And I did not give it a second thought. Even though I was sitting in a canoe two hours outside Abidjan at the time.

That experience brought together some of the most important forces in the world today: technology, markets, global integration and the changing source of economic value.

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First, revolutions in technology

Advances in information technology, transportation and communications are taking us to a post-industrial age, with profound implications for economies and societies. And I am convinced that the process of diffusion is far from complete. The sign that a technology has become pervasive is when you notice its absence rather than its presence. By that standard, connection to the Internet has some way to go. Perhaps 3-4 percent of the letters of congratulation that I received on my appointment as Secretary were in the form of e-mails.

With the scale of business-to-business connections many times greater than individual-to-individual ones, it is likely that we understate their importance when we equate our day-to-day experience with that of the broader economy. What we can say, based on the evidence, is that the diffusion of new technologies is likely to be an accelerating rather than a decelerating process. I have been struck, looking at the business literature on these issues, by how many of the charts are in log scale.

Second, the spread of market forces

A second trend that has been creating this new economy has been the erosion of centralized economic controls and the spread of market forces.

It cannot be an accident that Soviet-style communism, planning ministries throughout the developing world and large corporations run by command and control all ran into a brick wall in the same decade and had to be restructured. Increasingly, the balance of economic advantage has tilted in favor of systems in which economic power and opportunities are more decentralized – and the skills and ideas of the individual are given greater weight. At the level of individual businesses and national economies, flexibility is winning out over rigid controls. And the capacity to respond to change is winning out over the capacity to dictate it.

Third, global integration

A third and perhaps most spectacular recent development is the beginnings of a more truly global economy.

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

Fourth, a changing source of economic value

A fourth major trend is a change in the nature of what constitutes a good. We are moving from an economy in which the canonical product is an ingot of iron, a barrel of oil or a bushel of wheat– to one in which the canonical product is gene sequence, a line of computer code, or a logo. As Chairman Greenspan has often emphasized, in such a world, goods are increasingly valued for the knowledge that went into them rather than their physical weight. And what you know matters more than how much you can lift.

Taken together, these trends perhaps capture what is new about the present moment. Parameters such as normal rates of unemployment and potential GNP growth surely have changed in the new economy. But many of the laws of economics, and all of the verities of human psychology, have not changed. That is why the new economy has to be built on old virtues. Which brings us to the question of explaining America's recent economic success.

II. The Foundations of America's Recent Economic Success

The exceptional performance of the United States economy in the 1990s has been fundamentally the result of the coming together of two elements: the advent of what Vice-President Gore has called the "information technology supply shock", and a return to old virtues in economic policies – fiscal policies particularly.

- The oil shock of the mid-1970s dramatically raised the price of a commodity that, while not accounting for a large share of the economy, had enormous spillovers. The effect was a negative productivity shock, and a combination of ills that we had to coin a new term for: stagflation.

- Conversely, the information technology sector accounts for a similar fraction of the American economy in the 1990s that oil did in the 1970s. But developments in this sector have reduced inflation and unemployment, and substantially raised productivity – with positive impacts on the rest of the economy that are just beginning to be captured.

Our ability to take advantage of this supply shock has depended on the centrality of information technology to our economy – which, in turn, has depended in large part on the dynamism of the American financial system.

- This helped to ensure that US companies were forced early to undergo painful re-engineering, permitting them to emerge faster and stronger in their fields.

- And it helped to channel funds to new industries – through a venture capital sector in which entrepreneurs may raise their first $100 million before buying their first suits.

However, our ability to exploit these new opportunities has depended also and critically on President Clinton and Vice President Gore's determination to forge a new national consensus around sound macro-economic policies – and, especially, a new paradigm for the management of our nation's budget.

Structural deficit policies give rise to vicious circles. With underlying deficits and rising debts and interest burdens, deficits tend to lead to rising interest rates – and so to falling investment and slowing growth, which reduce revenues further, increase deficits and start the cycle again. This process leads to steadily decreasing national saving and deteriorating economic performance – what we saw in the late 1980s and early 1990s.

Deficits – and the vicious cycle that they set in train – are ever more costly in an environment of burgeoning opportunities for new investment. That is why it was so important for the United States to reverse a generation or more of public borrowing. And that is why fiscal policy has played such an important role in helping to sustain the current expansion.

Surpluses give rise to a kind of virtuous circle of declining debt, increasing national savings, lower interest rates, and rising investment and growth – leading to further fiscal improvement and a continuation of the cycle. Indeed, American savers have had to absorb more than \$2 trillion less in government debt since 1993 than they would have if the budget projections made in that year had been realized. That is more than \$2 trillion dollars available for new investment in America's future.

This has much to do with why the expansion has been investment led, capacity creating and long lived, with capacity utilization – even today – not far from historic norms. Real investment as a share of GNP is today higher than it has been at any time in the postwar period.

III. Core Implications for Future Economic Policy

If these judgments are correct – that the economy is new in the sense that it is driven by new technologies, the benefits are more global, it is more market-oriented, and the value of its goods is judged more by the ideas they embody than their physical mass – this has a number of implications for public policy today:

- Some newer aspects of economic policy become especially essential.

- And certain old virtues increase in value.

1. New Priorities for Economic Policy

It is a characteristic of the "weightless" goods of this new economy that there will often be very high initial fixed costs and low, even zero marginal costs. In that sense, the cost structure of the canonical industry will be increasingly reminiscent of that for pharmaceuticals, publishing or the recording industry.

In these new kinds of industries, growth should have a greater potential to snowball. Success may have greater potential to become self-perpetuating, as growth leads to rapid declines in prices, and so to further expansion in the market and further growth. We see an aspect of this today in the fact that orphan drugs cost much more than drugs with a larger market – and bestsellers cost that much less than academic monographs that very few people may read.

There is the further point about these new industries, beyond the fact that costs fall as markets grow, that the value of networks will be increasingly important. The first fax machine could do very little. With one hundred fax machines, ten thousand connections are possible – with ten million machines the possibilities are almost limitless.

This reality – that growing demand and growing markets and networks will tend to reduce costs and raise efficiency – makes successful economic management all the more important. It also points up the importance of making sure that we function with as large markets as possible.

- That is why continued emphasis on deregulation will be crucial, to ensure that government is not preventing or distorting the development of fast-growing markets. It is why passing the Telecommunications Act was important. And it is why we worked so hard to pass the right kind of Financial Modernization legislation last year.

- Just as important, it highlights the enormous benefits that will flow from successful global economic integration, which is why we need to do all we can to keep our markets open, and to work to ensure that other countries open theirs. A number of upcoming decisions will show our continued commitment to this kind of integration. Let me highlight two here: granting China Permanent Normal Trade Relations (PNTR) status to support its entry into the WTO; and passing the African Growth and Opportunity Act and the enhanced Caribbean Basin Initiative.

- It also points up the importance of growing the size of our networks here at home, by making sure that everyone has a part. This has been an enduring national challenge going back to our efforts, half a century ago, to ensure that essentially every American had access to electricity, to running water, and to a telephone. It has its counterpart today in our work, through "First Account" and other initiatives, to ensure that every American has access to a bank account. This sounds like a small step. Until you consider that in this age of the Internet, derivatives, and embedded options, perhaps 15 percent of US households still do not have one.

2. *The New Importance of Old Virtues*

At the same time, in this new economy some of the oldest lessons of economic science acquire even greater force.

- It makes continued fiscal discipline even more important. For, at a time when growth and investment is critical, and financial markets respond more quickly than ever before to changes in the future prospects, the specter of rising public debt in the future will cause more economic damage today than was true in the past – and the prospect of continued surplus will do that much more good. By continuing to pay down debt within a framework that helps us meet our future commitments to Social Security and Medicare, we can help to maintain the virtuous cycle we have worked so hard to achieve. And we can re-load the fiscal cannon, preparing the government to respond to future contingencies such as recessions or threats from overseas.

- It also makes us even more dependent as a nation on the skills and capacities of our people – and makes more urgent the challenge of raising the quality and coverage of American education. This will have important direct benefits for the economy in reducing skill bottlenecks and expanding the productive potential of the workforce. It will also have important indirect benefits for our society, by weighing against the potentially inequitable consequences of new technologies. That is why the President has placed such an emphasis on investing in schools, on expanding Pell Grants and on creating the HOPE scholarship. And that is why his budget for FY2001 includes expanded deductions for college tuition that would essentially put four years of college within reach for every American.

- And this new economy surely makes the case for public support for scientific innovation, first elaborated nearly 40 years ago by Kenneth Arrow, that much more evident. That is why we pushed for an extension of the R & D tax credit last year. That is why we have increased America's national science and technology budget for seven successive years. And that is why the President's budget for FY2001 commits an unprecedented $43 billion to science and technology research as part of our 21st Century Research Fund – a 7 percent increase on the previous year.

IV. Concluding Remarks

These are good times. The economy is working for most Americans. We have a great deal to be proud of. But let me conclude on a more somber note.

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, just as surely, will 2009 look very different from today. We cannot know what this new economy will look like a decade from now. What we can know is that we are enjoying a very special moment, a moment that confers a special responsibility on public policy to work to broaden the base of our prosperity – and minimize future risks.

Technology does provide Americans with remarkable opportunities. But they are not there for those who lack the basic means to take advantage of them. And 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. Male life expectancy in Washington, DC is several years below that in Mongolia or Belarus.

If our success is to continue, if our economy is to be what it has to be, and if it is to be a secure prosperity that we enjoy, then we as a country have to do more to ensure that all are included. That is why expanding support for the working poor through the Earned Income Tax Credit is so important. That is why we need to take the steps contained in our New Markets Initiative to help to unleash the potential of our inner cities and other disadvantaged areas. And that is why we need to expand programs such as Head Start and the Child Health Insurance Program so that every child starts out in life with the core essentials. Many are rightly focused today on preventing a gaping digital divide. And we should remember that nothing does more to create that divide than the inability to read.

Finally, technology is transforming our economy and our society. But we need to recognize that there are some things that many Americans would like to stay the same. As we work to build a modern financial system we have also to ensure that every consumer's right to privacy is properly protected. As we work to build a more global economy we have also to work to prevent a race to a bottom in the policies and protections that matter to us. As important as new markets, new technologies, and new global integration are, we have equally to recognize that their full potential will not be realized without the right kind of public purpose. Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
March 6, 2000

Remarks by Under Secretary of the Treasury for Domestic Finance Gary Gensler to the Institute of International Bankers Annual Washington Conference Washington, D.C.

Good morning 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. Passage of the Financial Modernization Act (the "Act") culminated decades of effort by Congress and various Administrations. In the end, we believe that we achieved a bill that benefits not only the financial services industry, but consumers, communities, and the economy as a whole. We are proud to have been part of this historic legislation.

The Act's core financial activities provisions are about to take effect on March 11th, 120 days after enactment of the bill. We are well into the tremendous undertaking of implementing the many provisions of the Act. We are working closely with our colleagues at the financial regulatory agencies to accomplish this.

This morning, I would like to give you an update on our efforts at Treasury to carry out the provisions of this legislation. While the Act generated a significant number of rulemakings and studies, I would like to focus today on four areas in particular - new financial activities and merchant banking, Community Reinvestment Act, subordinated debt study, and privacy. March will truly be a busy time for us. Proposed rules on privacy have already been published. We anticipate publishing rules, studies, and requests for comments in each of the other areas. We also are moving forward to finalize proposals for the President's privacy initiative.

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New Financial Activities/Merchant Banking

I would like to talk first about some of the new authority the legislation provides to financial institutions. In addition to opening up a broad range of banking, insurance, and securities activities that can now be offered by a single organization, the financial modernization bill allows for additional new financial activities. Treasury and the Federal Reserve Board have a shared role under the Act in defining these additional activities. Both Treasury and the Federal Reserve share the view that the intent of the legislation is to expand the range of permissible activities while maintaining an appropriate separation between banking and commerce. We will be working closely with the Board to ensure that new activities permitted under these provisions are truly financial in nature. We will each be putting out a housekeeping rule addressing the process for applications to conduct these new activities.

Maintenance of the separation between banking and commerce is particularly important in the area of merchant banking. Both Treasury and the Federal Reserve Board believe that the limitations included in the legislation are very important to ensure that merchant banking ownership interests are held as investments. A critical feature of our capital markets has been a traditional separation of those who allocate capital from those who compete for capital. The financial modernization legislation appropriately took a very cautious approach to lessening such separation.

Treasury and the Board are writing joint rules to ensure compliance with the statutory limitations on merchant banking activities and to place limits on transactions between depository institutions and these holdings. Such limits are essential for the protection of the safety and soundness of affiliated depository institutions. We look forward to publishing proposed rules with the Federal Reserve on these issues later this month.

Community Reinvestment Act

We also have important follow-up work to do in the area of community reinvestment. In modernizing our nation's financial system, the Administration insisted on the principle that no bank or holding company should be permitted to expand into newly authorized lines of business -- such as insurance and securities underwriting -- without a satisfactory track record in meeting its fundamental community reinvestment responsibilities. We and our Congressional supporters fought hard for this principle, and won in the final bill.

The OCC and Federal Reserve have already published proposed rules on engaging in new activities in financial subsidiaries or financial holding company affiliates that require all affiliated banks to have at least a satisfactory CRA rating. We expect the rules to be finalized shortly. The implementation of these rules represents an important step forward for CRA.

The legislation also calls on Treasury to conduct two studies on how the bill affects financial services in low- and moderate-income communities and to persons of modest means. The first, a baseline study of the effectiveness of CRA, is due in March. This baseline study, in effect, will be the first installment of a broader study due in early 2001. We expect that the result of the baseline study will be very helpful in suggesting the lines of inquiry for the broader study. The legislation also requires the Federal Reserve to do a survey of profitability, delinquency, and default rates related to CRA lending. We look forward to the results of that study.

The law also includes a provision that requires disclosure and annual reporting on certain agreements between banks and non-governmental organizations. The bank regulatory agencies are charged with proposing implementing rules for this provision. How the bank regulators implement this rule could have an important effect on the burdens faced by financial institutions and community-based organizations in creating jobs, building housing, and restoring neighborhoods in communities across the country. We expect regulators to publish proposed rules shortly.

Financial modernization holds the promise of greater customer choice and greater economic efficiency in delivering financial services. We must remain vigilant to assure that access to capital is available for all communities.

Subordinated Debt Study

Treasury and the Federal Reserve are jointly undertaking a study of the feasibility and appropriateness of requiring large banks and bank holding companies to maintain some portion of their capital in the form of subordinated debt. Treasury and the Board will publish a request for comment this week that asks a number of questions that we believe are important to evaluating this issue.

Proponents of mandatory subordinated debt believe that it has the potential to provide a source of market discipline, both directly, through the cost of issuing such debt, and indirectly, through monitoring of the price of previously issued debt. As the tremendous changes in the banking industry further complicated the task of supervising large banking organizations, market discipline could prove increasingly valuable in maintaining the soundness of our banks.

Our request invites comment on the potential of a subordinated debt requirement to serve as a source of market discipline. It raises issues concerning the characteristics of the subordinated debt markets and both the costs and benefits of mandatory subordinated debt issuance. We also ask how such a requirement could be structured, if implemented, and how it could be incorporated into existing capital standards and supervisory policies.

We look forward to receiving comments on these important and complex issues.

Privacy

Finally, I would like to turn to the topic of privacy.

One of the first challenges of implementing financial modernization has been the development of proposed privacy rules. This is an issue that has great resonance with consumers and with lawmakers. When the President outlined his "Financial Privacy and Consumer Protection in the 21st Century" initiative last May, many viewed the proposal as ambitious. Only six months later, we made significant progress on the President's goals in the financial modernization legislation. We believe that the requirements included in the legislation 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.

In developing the regulations to implement the Act's provisions, we faced the challenge of protecting the privacy of consumers while preserving the benefits of competition and innovation brought about by technology. 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 together to issue consistent rules on one of the Act's most complicated and important provisions. The timetable has been very tight, but there has been a high level of cooperation among all of those involved in the process.

Proposed rules have now been issued by all of the agencies involved. We believe 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. After the comment period closes at the end of March, the agencies will continue to work together with the goal of achieving a uniform, consistent set of final rules.

The additional consumer choice provided in the financial modernization act is an important step in protecting financial privacy. As important as the legislation and the implementing rules are, however, this Administration believes that more can be done to protect personal financial privacy. Consumer choice for sharing with third parties should be a floor, not a ceiling.

The President has called on Treasury, working with other parts of the Administration, to develop legislation to enhance consumer privacy beyond existing law. As the President has indicated, our new proposals will address information sharing within financial conglomerates. We are looking at a range of options, with the objective of finding balanced proposals that will both enhance privacy protection and allow financial institutions to provide quality services. We are consulting with industry, consumer groups, and Congress to fulfill the President's mandate. We hope to finalize these proposals in the near term.

I believe that 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.

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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PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
March 6, 2000

Contact: Peter Hollenbach
(202) 691-3502

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR FEBRUARY 2000

The Bureau of the Public Debt announced activity figures for the month of February 2000, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$1,905,222,878
Held in Unstripped Form	$1,700,260,683
Held in Stripped Form	$204,962,195
Reconstituted in February	$18,093,988

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, FEBRUARY 29, 2000 -- Continued

Loan Description			Corpus STRIP CUSIP	Maturity Date	Principal Amount Outstanding in Thousands			Reconstituted This Month
					Total Outstanding	Portion Held in Unstripped Form	Portion Held in Stripped Form	
Treasury Notes:								
CUSIP:	Series:	Interest Rate:						
912827 4A7	AB	5-1/2	912820 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	4,793,830	5,702,400	12,800
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	6,492,806	4,587,840	0
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	6,138,082	5,381,600	5,200
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	7,635,202	3,677,600	132,800
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	8,563,333	3,834,750	0
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	8,979,185	3,360,000	112,000
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	19,196,002	19,196,002	0	0
D25	D	7-1/2	BC0	11/15/01	24,226,102	20,305,462	3,920,640	402,080
5X6	R	6-3/8	EL7	01/31/02	19,381,251	19,381,251	0	0
6A5	S	6-1/2	EN3	02/28/02	16,569,711	16,569,711	0	0
F49	A	7-1/2	BD8	05/15/02	11,714,397	8,739,197	2,975,200	233,280
G55	B	6-3/8	BE6	08/15/02	23,859,015	22,103,815	1,755,200	104,000
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	22,930,595	632,096	141,184
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	27,671,028	340,000	0
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	18,593,785	32,000	0
N81	A	5-7/8	BH9	02/15/04	12,955,077	12,883,077	72,000	0
5A6	E	4-3/4	DQ7	02/15/04	17,823,228	17,823,228	0	0
P89	B	7-1/4	BJ5	05/15/04	14,440,372	14,373,172	67,200	57,600
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	12,377,667	968,800	73,600
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	32,658,406	32,658,406	0	0
S86	A	7-1/2	BM8	02/15/05	13,834,754	13,789,634	45,120	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	15,200,320	9,600	0
W81	A	5-5/8	BR7	02/15/06	15,513,587	15,513,267	320	0
X80	B	6-7/8	BS5	05/15/06	16,015,475	15,924,915	90,560	0
Y55	C	7	BT3	07/15/06	22,740,446	22,740,446	0	0
Z62	D	6-1/2	BU0	10/15/06	22,459,675	22,459,675	0	0
2J0	B	6-1/4	BW6	02/15/07	13,103,678	13,032,830	70,848	0
2U5	C	6-5/8	BX4	05/15/07	13,958,186	13,914,986	43,200	0
3E0	D	6-1/8	CA3	08/15/07	25,636,803	25,612,803	24,000	3,200
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	27,399,894	27,399,794	100	0
5Z1	B	6-1/2	EM5	02/15/10	12,277,466	12,277,466	0	0
Total Treasury Notes............................					1,260,916,688	1,222,338,014	38,578,674	1,277,744
Grand Total..					1,905,222,878	1,700,260,683	204,962,195	18,093,988

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

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

FOR IMMEDIATE RELEASE
March 06, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 09, 2000
Maturity Date:	June 08, 2000
CUSIP Number:	912795DZ1

High Rate: 5.690% Investment Rate 1/: 5.852% Price: 98.562

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 14%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 21,689,882	$ 7,371,882
Noncompetitive	1,328,544	1,328,544
PUBLIC SUBTOTAL	23,018,426	8,700,426 2/
Foreign Official Refunded	310,939	310,939
SUBTOTAL	23,329,365	9,011,365
Federal Reserve	4,336,780	4,336,780
Foreign Official Add-On	139,061	139,061
TOTAL	$ 27,805,206	$ 13,487,206

Median rate 5.660%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.590%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 23,018,426 / 8,700,426 = 2.65

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,015,153,000

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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
March 06, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 09, 2000
Maturity Date:	September 07, 2000
CUSIP Number:	912795EZ0

High Rate: 5.825% Investment Rate 1/: 6.085% Price: 97.055

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 70%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,360,487	$ 4,425,487
Noncompetitive	1,105,161	1,105,161
PUBLIC SUBTOTAL	19,465,648	5,530,648 2/
Foreign Official Refunded	2,472,761	2,472,761
SUBTOTAL	21,938,409	8,003,409
Federal Reserve	3,850,000	3,850,000
Foreign Official Add-On	1,105,239	1,105,239
TOTAL	$ 26,893,648	$ 12,958,648

Median rate 5.810%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.750%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 19,465,648 / 5,530,648 = 3.52

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $810,684,000

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

For Immediate Release
March 7, 2000

Contact: Public Affairs
(202) 622-2960

TREASURY AND JUSTICE RELEASE 2000 MONEY LAUNDERING STRATEGY

Treasury Deputy Secretary Stuart Eizenstat and Deputy Attorney General Eric Holder will release the Second Annual National Money Laundering Strategy **at 4 p.m. Wednesday, March 8 in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, N.W.**

The room will be available for pre-set at 3 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.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 9:00 A.M.
March 7, 2000

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT : Bill Buck
202-622-1997

TREASURY ANNOUNCES DEBT BUYBACK OPERATION

On March 9, 2000, the Treasury will buy back up to $1,000 million par of its outstanding issues that mature between February 2015 and February 2020. Treasury reserves the right to accept less than the announced amount.

This debt buyback (redemption) operation will be conducted by Treasury's Fiscal Agent, the Federal Reserve Bank of New York, using its Open Market operations system. Only institutions that the Federal Reserve Bank of New York has approved to conduct Open Market transactions may submit offers on behalf of themselves and their customers. Offers at the highest accepted price for a particular issue may be accepted on a prorated basis, rounded up to the next $100,000. As a result of this rounding, the Treasury may buy back an amount slightly larger than the one announced above.

This debt buyback operation is governed by the terms and conditions set forth in 31 CFR Part 375 and this announcement.

The debt buyback operation regulations are available on the Bureau of the Public Debt's website at www.publicdebt.treas.gov.

Details about the operation and each of the eligible issues are given in the attached highlights.

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Attachment

LS-440

HIGHLIGHTS OF TREASURY DEBT BUYBACK OPERATION

March 7, 2000

Par amount to be bought back ....Up to $1,000 million
Operation date ....March 9, 2000
Operation close time ....11:00 a.m. Eastern Standard time
Settlement date ....March 13, 2000
Minimum par offer amount $100,000
Multiples of par $100,000
Format for offers .....Expressed in terms of price per $100 of par with three decimals. The first two decimals represent fractional 32nds of a dollar. The third decimal represents eighths of a 32nd of a dollar, and must be a 0, 2, 4, or 6.
Delivery instructions ....ABA Number 021001208 FRB NYC/CUST

Treasury issues eligible for debt buyback operation (in millions):

Coupon Rate (%)	Maturity Date	CUSIP Number	Par Amount Outstanding*	Par Amount Privately Held*	Par Amount Held as STRIPS*
11.250	02/15/2015	912810 DP 0	12,668	11,012	4,962
10.625	08/15/2015	912810 DS 4	7,150	5,983	1,768
9.875	11/15/2015	912810 DT 2	6,900	5,958	3,427
9.250	02/15/2016	912810 DV 7	7,267	6,230	843
7.250	05/15/2016	912810 DW 5	18,824	17,726	161
7.500	11/15/2016	912810 DX 3	18,864	17,486	1,005
8.750	05/15/2017	912810 DY 1	18,194	15,677	7,592
8.875	08/15/2017	912810 DZ 8	14,017	12,063	3,070
9.125	05/15/2018	912810 EA 2	8,709	7,478	5,736
9.000	11/15/2018	912810 EB 0	9,033	8,494	5,488
8.875	02/15/2019	912810 EC 8	19,251	17,566	7,576
8.125	08/15/2019	912810 ED 6	20,214	18,373	733
8.500	02/15/2020	912810 EE 4	10,229	8,868	2,011
		Total	171,320	152,914	44,372

* Par amounts are as of March 3, 2000

The difference between the par amount outstanding and the par amount privately held is the par amount of those issues held by the Federal Reserve System.

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U.S. International Reserve Position

March 8, 2000

The Treasury Department today released U.S. reserve assets data for the week ending March 3, 2000.

As indicated in this table, U.S. reserve assets totaled $69,607 million as of March 3, 2000, up from $69,296 million as of February 25, 2000.

(in US millions)

I. Official U.S. Reserve Assets	February 25, 2000			March 3, 2000		
TOTAL		69,296			69,607	
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]						
a. Securities	4,932	5,784	10,716	4,861	5,955	10,816
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,466	11,196	19,662	8,346	11,526	19,872
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]			17,587			*17,588*
3. Special Drawing Rights (SDRs) [2]			10,282			*10,283*
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 25, 2000 are final. Data for SDR holdings and the reserve position in the IMF shown as of March 3, 2000 (in italics) reflect preliminary adjustments by the Treasury to the February 25, 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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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets

	February 25, 2000	March 3, 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 25, 2000	March 3, 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		

Offical Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week
Enter Dates Here	25-Feb-00	3-Mar-00

Foreign Currency	25-Feb-00	3-Mar-00	Change	Source: NY Fed
Euro Securities	$4,931,776,568.33	$4,860,885,351.16	-70,891,217.17	
Yen Securities	$5,784,182,014.78	$5,954,824,833.02	170,642,818.24	
Sec. Total	*$10,715,958,583.11*	*$10,815,710,184.18*	99,751,601.07	
Euro Deposits	$8,466,226,535.12	$8,345,626,087.70	-120,600,447.42	
Yen Deposits	$11,196,063,897.45	$11,526,408,101.85	330,344,204.40	
Deposit Total	*$19,662,290,432.57*	*$19,872,034,189.55*	209,743,756.98	
Total	$30,378,249,015.68	$30,687,744,373.73	309,495,358.05	
Euro Rate	*$0.9763*	*$0.9618*		
Yen Rate	*Y 110.98*	*Y 107.80*		

IMF	25-Feb-00	3-Mar-00	Change	Source: IMF (fax)
		(prelim, with adjust.)		
Reserve Tranche	17,586,967,165.05	17,588,098,388.07	1,131,223.02	
GAB	0.00	0.00	0.00	
NAB	0.00	0.00	0.00	
Total	17,586,967,165.05	17,588,098,388.07	1,131,223.02	
SDR	10,282,185,876.40	10,282,847,244.02	661,367.62	
			0.00	

as of 1/31/00	25-Feb-00	3-Mar-00		Source: FMS (monthly statement)
Gold	11,048,272,032.71	11,048,272,032.71		
			0	

	25-Feb-00	3-Mar-00		Source: (?)
Other Res.Assets	0	0	311,287,948.69	

TOTAL	**69,295,674,089.84**	**69,606,962,038.53**

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

Prelim. IMF Data	**IN SDRs**			**SDR rate for**	
Calculation Section	**25-Feb-00**	**Adjustments**		**3-Mar-00**	**In USD**
Reserve Tranche	13,125,100,834		13,125,100,834	*0.746249*	$17,588,098,388.07
GAB	0		0		$0.00
NAB	0		0		$0.00
			13,125,100,834	Total =	$17,588,098,388.07
SDRs	7,673,564,473		7,673,564,473	SDRs =	$10,282,847,244.02

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**TREASURY UNDER SECRETARY (INTERNATIONAL AFFAIRS)
TIMOTHY F. GEITHNER
TESTIMONY BEFORE THE HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES**

Introduction:

Thank you, Mr. Chairman and Ranking Member LaFalce, for inviting me to testify at this important hearing about efforts to combat AIDS worldwide. We welcome your hard work, Mr. Chairman, in bringing attention to this issue and in putting forward a creative and ambitious proposal for U.S. leadership in this global health crisis.

I would like to focus my remarks on the broader challenge of diverse health problems in the developing world, and on the Millennium Initiative proposed by the President to help combat infectious diseases, including AIDS. Health issues are not usually considered the province of Finance Ministries, but they should be. In many countries there are no greater threats to economic development, and any strategy that effectively addresses health problems will need to leverage financial resources on a large scale.

In my testimony today I would like to:

- First, illustrate the United States' compelling economic interest in combating infectious diseases in the developing world;
- Second, identify the major constraints on progress in this area, and review the lessons of recent development experience;
- Third, outline the main elements of the Administration's initiative to promote the development and delivery of vaccines around the world.

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The Economic Dimension of the Crisis

The human toll of AIDS is indeed staggering. Fifty million people worldwide have been infected with the HIV virus; more than 16 million have died; and annual AIDS-related fatalities hit a record 2.6 million last year.

So far, the most devastating impact of AIDS has been in sub-Saharan Africa, where 85 percent of all AIDS deaths have occurred. In at least five African countries, over 20 percent of adults are HIV-positive. And the highest rates of new infection are often among young women who will soon be mothers.

Even more frightening is the possibility that other parts of the world will go down the same road as Africa. Infection rates in Asia are climbing rapidly, with several countries on the brink of a large-scale pandemic and needing to take action immediately to forestall the disaster that Africa has suffered. Parts of Latin America and the Caribbean -- our own neighbors - also show high and rising rates of infection. And the former Soviet Union countries and Eastern Europe are vulnerable as well, with Russia experiencing the highest increase in infection rates in the world last year.

At the same time, people around the world continue to suffer from the scourge of other deadly diseases that are centuries old. Tuberculosis accounts for 2.3 million deaths annually, and drug-resistant strains are spreading. Thousands of people who are HIV-positive actually die of TB; their damaged immune systems allow active TB to develop, which then can spread to people who are not HIV-positive. Malaria strikes hundreds of millions of people each year and results in more than one million deaths, mostly children. The more common infectious diseases, diarrhea and respiratory infections, are even more devastating, killing almost 6 million people each year.

Altogether, infectious diseases are the leading cause of death worldwide, causing almost half of all deaths among people under age 45. As a result, over 11 million children worldwide are orphaned each year.

It is often hard for Americans to fathom, but fewer than half of Africa's children are vaccinated against basic diseases like measles and diphtheria - even though such vaccines exist and are one of the most cost-effective ways to improve health. In South Asia, less than three-quarters of the children are vaccinated. The result is that over 8 million children die each year of centuries-old diseases. Millions could be saved using vaccines and medicines available today.

The social and economic impact of this public health crisis is horrific. Life expectancy is declining sharply in many African countries, reversing decades of hard-won gains. In southern Africa, life expectancy is expected to drop from a high of 59 in the early 1990s to 45 within the next 5-10 years - a level not seen since the 1950s. Importantly, life expectancy is falling mainly because of rising mortality among prime age adults. Because research shows that a larger share of working-age adults in a population leads to faster economic growth, the loss of the most productive members of society has disproportionate economic consequences.

Health care budgets and facilities are overwhelmed by the heavy burden of caring for those infected. Families that are already impoverished are forced to liquidate assets and defer expenses for essentials like education in order to pay for costly medical care; this sends them into a deeper spiral of poverty. The death of both parents, which is very common once AIDS strikes the family, has led to an alarming number of orphans - over 11 million worldwide, with all but one-half million in Africa.

In many societies, young women are particularly vulnerable. It is often difficult for them to stand up for themselves and minimize HIV risks, and - once infected - they may face abandonment.

The costs of this humanitarian crisis are not limited to the countries that are directly affected. We are all vulnerable - in part, because infectious diseases do not respect the boundaries of states and geography, and in part because the national economic distress and political instability that inevitably accompany this scale of human loss can cause greater damage to the world economy and to regional stability.

We face a humanitarian imperative, but also an economic and a strategic imperative, in doing what we can to address these challenges.

The Complexity of the Challenge and The Lessons of Experience

The causes of the health crisis in developing countries are complicated and formidable. The record of past international efforts to combat infectious disease suggests that there are no easy, simple solutions to this problem. Nevertheless, we have learned a lot from experience, and we know the concrete steps that need to be taken to improve the health and economic situation in poor nations.

One problem contributing to the high incidence of infectious diseases is the remaining gaps in our scientific knowledge about those diseases. The development of vaccines and medicines simply cannot exceed the frontiers of available basic science.

Yet, our scientific understanding is growing daily. As one pharmaceutical executive said at last week's meeting with the President, this is a "golden age" for research and implementation. Important recent advances are being made on malaria, pneumococcus, and AIDS. Public policy can provide a critical boost to private research efforts, and I will describe later some of the channels of public-private cooperation that we intend to strengthen.

A second obstacle to improving health in poor nations is their lack of resources relative to the cost of even the most basic health interventions. On average, the poorest nations in the world spend $15 per person on health care each year - less than it costs to fully vaccinate a child (for polio, diphtheria, pertussis, measles, tetanus, hepatitis B, TB, yellow fever, and rubella). In the United States, we spend thousands of dollars per person on health care each year. The poorest developing countries have only 14 doctors and 26 nurses on average for every 100,000 patients, compared to 245 doctors and 878 nurses in the United States. Roughly 800 million people in these countries live on less than a dollar per day. The harsh reality is that the cost of caring for patients with AIDS the way we do in the United States far exceeds the per capita income of most developing countries.

Once again, however, we know how we can reduce -- but obviously not eliminate -- this problem. The HIPC debt initiative provides a powerful and effective tool for increasing the resources available to the poorest countries -- and for ensuring that these resources are used where they are most needed. Aiding the broader process of development will also help these countries generate more internal funds that can be used to improve health.

A third obstacle to good health in developing nations is the difficulty of delivering basic health services when and where they are needed. Clearly, it does no good to ship vaccines and medicines to the ports of poor nations if they do not end up in the throats or arms of the people who need them. Just as clearly, it does little good to administer vaccines and medicines to people who do not receive basic tools for maintaining health (such as nutritional interventions like vitamin A and iron) or preventing disease (such as bed nets for malaria, and condoms and sex education for HIV/AIDS).

However, the tight linkages between different aspect of health care are now well understood in the development community. The President's Millennium Initiative and the plans being developed by the World Bank focus squarely on this problem by shifting significant resources to improving the delivery of basic health services including vaccines and medicines.

But this is not a problem of money alone. It is also a matter of competence and enduring commitment. The governments of developing nations need to commit themselves to specific targets for improving health care delivery and health outcomes. At the same time, donor countries, international organizations, and non-government entities in developing nations must work cooperatively with those nations' governments. Such commitment and cooperation have achieved demonstrated success. In Uganda and Thailand, innovative programs have begun to reverse HIV infection rates of high-risk groups. In Senegal, an early investment in prevention programs has helped to keep HIV infection rates low.

In sum, poverty and runaway infectious disease reinforce each other to produce economic and social problems that may seem insuperable. Yet, despite the scale of the crisis and the complexity of the constraints, experience points to specific actions we can take that will dramatically improve the lives of millions of people.

<u>The President's Millennium Vaccine Initiative</u>

In January of this year, the President outlined a new initiative to build on existing approaches to combating HIV/AIDS and other infectious diseases. This initiative has the following principal components.

First, we need to rapidly mobilize additional international resources to help the poorest countries vaccinate children and deal with the heavy cost of AIDS prevention and treatment.

- The President has proposed in his FY 2001 budget an additional $100 million for HIV prevention and AIDS treatment in Africa and Asia. We can make crucial headway against HIV and AIDS by providing clear information on prevention strategies, supplying condoms, and treating sexually transmitted diseases. We are calling on other countries to join us in committing money for these purposes.

- The President has also proposed a $50 million contribution to the Global Alliance for Vaccines and Immunization (GAVI) to purchase vaccines for children. This contribution should help catalyze significant contributions from other countries and foundations. It will also add critical credibility to the international community's commitment to provide a market for new vaccines, including vaccines for AIDS, when they are developed. Further, the President has helped to catalyze commitments from the pharmaceutical industry to donate hundreds of millions of dollars worth of vaccines.

Second, we must shift existing international resources toward building infrastructure in poor countries that can deliver vaccines and medicines and provide essential basic health services.

- President Clinton has called on the multilateral development banks to shift an additional $400 million to $900 million annually of concessional resources into basic health care. Of course, an essential element of such care is prevention and treatment of infectious diseases, including AIDS. These banks are the right institutions for investing in health infrastructure and health care: these activities fall clearly within the poverty reduction and development mandate of the banks, and no other institutions can bring to bear the funding and policy dialogue on the scale needed for the task.

- The Administration is also using the enhanced HIPC debt initiative to support our efforts on infectious diseases. A key principle of this initiative, designed to reduce substantially the crushing debt burdens of the world's poorest countries, is the requirement that resources freed up by debt relief be used for poverty reduction.

- Therefore, HIPC countries will be developing Poverty Reduction Strategy Papers (PRSPs), in a participatory process with civil society and donors, to establish comprehensive plans with monitorable targets. We have already requested that our Embassies and USAID missions in these countries stress the use of debt-reduction savings for bolstering basic education and health, including the fight against infectious diseases. We expect that all PRSPs that are prepared by HIPC candidates will discuss the adequacy of budget resources and policy reforms devoted to basic health care.

- The early evidence from HIPC beneficiaries is encouraging. Last year, the Ugandan government saved $45 million in debt service under the original HIPC program. Its expenditures on health and education increased by $55 million, including a major effort to combat the HIV/AIDS epidemic. Immunization rates for children in Uganda are expected to increase from 55 percent in 1996 to 60 percent in 2002. One of the key priorities for health spending in the future, which would be facilitated by enhanced HIPC debt relief, is to extend HIV/AIDS education outreach, particularly to rural communities. Another instructive example is Bolivia, which saved $77 million under the original HIPC initiative last year and increased social sector spending by more than $80 million.

- This redirection of resources supports the Administration's overall strategy for global development, which emphasizes poverty reduction and gives a central role to "global public goods" -- like health or the environment -- in which positive actions taken in one country benefit other countries is well. Because of the interconnection between poverty and health, funds for fighting infectious diseases should not be diverted from spending on other basic social programs such as education and health care.

- These measures do not require additional budget commitments. However, our influence within the multilateral development banks and on HIPC depends on our ability to meet our existing commitments.

Third, we need to harness the scientific and technological skills of our nation and others to accelerate the development of new vaccines and medicines for infectious diseases. Because poor countries often cannot afford to buy vaccines, the market provides little incentive for pharmaceutical companies to develop vaccines for diseases that disproportionately affect those countries.

- The President's FY 2001 budget for the National Institutes of Health includes a significant increase in research critical to creating vaccines for deadly diseases that afflict primarily developing countries. Funding for AIDS vaccine research will increase substantially in FY 2001 and will have more than doubled since FY 1997.

- The President is proposing a new tax credit for sales of vaccines against malaria, tuberculosis, HIV/AIDS, or any infectious disease that causes over one million deaths annually worldwide. Under the proposal, the seller of a qualified vaccine could claim a credit equal to 100 percent of the amount paid by a qualifying nonprofit organization (such as UNICEF) that received a credit allocation from the U.S. Agency for International Development (AID). The tax credit would match the purchaser's expenditures dollar-for-dollar, thereby doubling its purchasing power. For 2002 through 2010, AID could designate up to $1 billion of vaccine sales as eligible for the credit. This credit would provide a specific and credible commitment to purchase vaccines for the targeted diseases once they become available. The President is calling on other governments to make similar purchase commitments, so that we can ensure a future market for these critically needed vaccines.

Conclusion

The sheer magnitude and complexity of these problems, and their resistance to the efforts of the past, have a tendency to overwhelm hope with a sense of futility. Around the world, infectious diseases - including AIDS - are killing millions of children and weakening and killing tens of millions of prime-age adults. The devastating human and economic consequences are clear.

Yet there are compelling examples of impressive progress toward resolving these problems, including the successes in Uganda, Thailand and Senegal that I mentioned earlier. And there are other success stories from well-coordinated global efforts: the hugely successful eradication of smallpox; the nearly complete campaign against polio; and the remarkable efforts that turned the tide on river blindness.

We believe that this is an important moment to try to catalyze a broad international effort to deal with the linked challenges of health crises and oppressive poverty. We look forward to working with the Congress to try to mobilize the necessary resources and shape the incentives and strategies that can contribute to enduring solutions.

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TREASURY ACTING ASSISTANT SECRETARY FOR TAX POLICY JONATHAN TALISMAN TESTIMONY BEFORE THE SENATE COMMITTEE ON FINANCE

Mr. Chairman, Senator Moynihan, and distinguished Members of the Committee:

Thank you for giving me the opportunity to appear before you today to discuss two important issues – the interest and penalty provisions of the Internal Revenue Code and the problem of corporate tax shelters.

On October 25, 1999, the Treasury Department issued a report on the interest and penalty regime in the Internal Revenue Code. The report was mandated by Section 3801 of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA98). The report reviewed the administration and implementation of those provisions and made appropriate legislative and administrative recommendations. I will focus on the main aspects of this report later in my testimony. However, I would first like to address the problem of corporate tax shelters.

In the past, the Committee on Finance has reacted quickly and appropriately with legislation when confronted with issues that posed grave consequences to the tax system, such as the use of tax shelters by individuals in the 1970's and 1980's and, more recently, the development of particular abusive transactions. As indicated by Secretary Summers this morning, we believe that the use of corporate tax shelters currently represents the most serious compliance problem facing our tax system.

My testimony today will focus on the reasons for our concerns, the steps Treasury, the Congress, and the IRS have undertaken to date to address this problem, why this current approach is inadequate and legislation is necessary, and what our legislative proposals entail.

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I. Corporate Tax Shelters

A. General Discussion and Background

Over the last several years, the Treasury Department has become increasingly aware and increasingly concerned about the proliferation of corporate tax shelters. These concerns range from the short-term revenue loss to the tax system, to the potentially more troubling long-term effects on our voluntary income tax system. In its FY 2000 Budget, released in February 1999, the Administration made several proposals to inhibit the growth of corporate tax shelters. These proposals generated significant commentary from the corporate and tax practitioner community.

In July 1999, the Treasury Department issued its White Paper, *The Problem of Corporate Tax Shelters: Discussion, Analysis and Legislative Proposals*. This report discussed more fully the reasoning underlying the Budget proposals relating to corporate tax shelters, provided a description and analysis of the comments on the Budget proposals, and provided, in light of these comments, refinements to those proposals. These refined proposals are contained in the Administration's FY 2001 Budget proposals.

There have been several other important developments regarding corporate tax shelters since the issuance of our FY 2000 Budget proposals approximately a year ago. The staff of the Joint Committee on Taxation has issued its report on the penalty and interest provisions of the Internal Revenue Code. In its report, the staff found that "the corporate tax shelter phenomenon poses a serious challenge to the efficacy of the tax system." Similar sentiments have been expressed by the American Bar Association, the American Institute of Certified Public Accountants, the New York State Bar Association, the Tax Executives Institute, and many respected tax executives and practitioners in testimony before the tax-writing committees and other presentations.

The Treasury and the IRS have issued administrative guidance curtailing the use of specific abusive transactions in the past year, including "fast pay" stock, "LILO" transactions, "BOSS" transactions, "chutzpah trusts," and debt straddles. In 1999, Congress enacted legislation addressing corporate tax shelters involving the use of certain liabilities to inflate the adjusted basis of assets. The IRS has won significant victories in court,[1] successfully arguing that the transactions purportedly giving rise to certain tax benefits should not be respected because the transactions did not possess economic substance. Most recently, Treasury and the IRS issued temporary and proposed regulations requiring registration of confidential corporate tax shelters, maintenance of lists of shelter participants, and reporting of certain transactions having characteristics common to corporate tax shelters.

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[1] See, e.g., *Compaq Computer Corp. v. Comm.*, 113 T.C. No. 17 (1999); *IES Industries v. U.S.*, No. C97-206 (N.D. Iowa 1999); *Winn-Dixie Stores, Inc. v. Comm.*, 113 T.C. No. 21 (1999); *Saba Partnership v. Comm.*, T.C. Memo 1999-359 (1999).

With these developments in mind, I would like to emphasize the following points in my testimony today.

First, despite these efforts, corporate tax shelters continue to be a substantial and ongoing problem. While Congress, the Treasury Department and the IRS take action to stop particular transactions as they are uncovered, many abusive transactions remain undiscovered and numerous new transactions are created all the time. Our new disclosure regulations primarily address the visibility of corporate tax shelter transactions. Disclosure will help the IRS identify and deal with abusive transactions more quickly and effectively. It also is our hope that the disclosure requirements will deter corporate taxpayers from entering into tax shelters. However, in the absence of Congressional action, we do not believe the regulatory disclosure requirements are sufficient to address fully the problem of corporate tax shelters, because they do not adequately affect the cost/benefit analysis a corporation undertakes when deciding whether to participate in a particular transaction.

Second, the *ad hoc* and piecemeal approach that Congress, the Treasury Department, and the IRS have employed in the past to address corporate tax shelters is inadequate. Admittedly, recent court decisions denying the purported tax benefits of certain shelter transactions are important. However, litigation is costly and inefficient. Moreover, these decisions are after-the-fact actions against shelters – they do not prevent the design, marketing, and implementation of new and different shelters. Furthermore, even though Congress has enacted certain legislative changes curbing certain types of shelters, these statutory prohibitions can sometimes be avoided by making certain adjustments to a transaction to avoid the impact of the revised statutory provisions. A global legislative solution is needed to prevent abusive, tax-engineered transactions before they occur. The Treasury Department believes this global solution should include four parts: increased disclosure, changes to the substantial understatement penalty, codification of the economic substance doctrine, and sanctions on other parties to the transaction.

Third, there are substantial similarities between the Treasury Department's proposals and other proposals to curb corporate tax shelters. For example, the staff of the Joint Committee on Taxation agrees that there should be increased disclosure by participants, increased penalties on understatements attributable to undisclosed transactions and tightening of the reasonable cause exception, and sanctions on other parties to the transaction. As discussed more fully in the White Paper, the American Bar Association and the New York State Bar Association proposals contain several elements similar to those in the Administration's proposal. Finally, H.R. 2255, introduced by Mr. Doggett, also contains an approach similar to the Administration's proposal, including the codification of the economic substance doctrine. We commend Mr. Doggett for his leadership.

Finally, the proposed legislation would be inadequate without effective enforcement. The Internal Revenue Service is undergoing a substantial restructuring. This restructuring will concentrate IRS resources relating to corporate tax shelters, enabling it to identify, focus on, and coordinate its efforts against corporate tax shelters in a more efficient manner, while instituting and maintaining appropriate taxpayer safeguards. The enactment of corporate tax shelter legislation, combined with the efforts of the restructured IRS, will deter abusive transactions before they occur and uncover and stop these transactions to the extent they continue to occur

The balance of my testimony with respect to corporate tax shelters will elaborate on these points.

B. Reasons for Concern

Corporate tax shelters are designed to, and do, substantially reduce the corporate tax base. Moreover, corporate tax shelters breed disrespect for the tax system – both by the parties who participate in the tax shelter market and by others who perceive unfairness. A view that well-advised corporations avoid their legal tax liabilities by engaging in tax-engineered transactions may cause a "race to the bottom." The New York State Bar Association recently noted this "corrosive effect" of tax shelters: "The constant promotion of these frequently artificial transactions breeds significant disrespect for the tax system, encouraging responsible corporate taxpayers to expect this type of activity to be the norm, and to follow the lead of other taxpayers who have engaged in tax advantaged transactions." If unabated, this will have long-term consequences to our voluntary tax system far more important than the revenue losses we currently are experiencing in the corporate tax base.

Finally, significant resources – both in the private sector and the government – are currently being wasted on this uneconomic activity.[2] Private sector resources used to create, implement and defend complex shelter transactions are better used in productive activities. Corporations distort their business decisions to take advantage of tax shelter opportunities. Similarly, the Congress (particularly the tax-writing committees and their staffs), the Treasury Department, and the IRS must expend significant resources to address and combat these transactions.

C. Corporate Tax Shelters and the Corporate Tax Base

Some have argued that the growth of corporate income tax receipts demonstrates that corporate tax shelters cannot be a problem. Of course, the size of the problem is not indicated by the *amount* of corporate tax receipts, which vary over time for a number of reasons, but by the *difference* between actual tax payments and those that would be remitted absent corporate tax shelters. That difference is impossible to measure directly, but the increasing difference between the income taxpayers report on their corporate tax forms (taxable income) and the income they report to shareholders (book income) appears to be consistent with the increasing use of corporate tax shelters.

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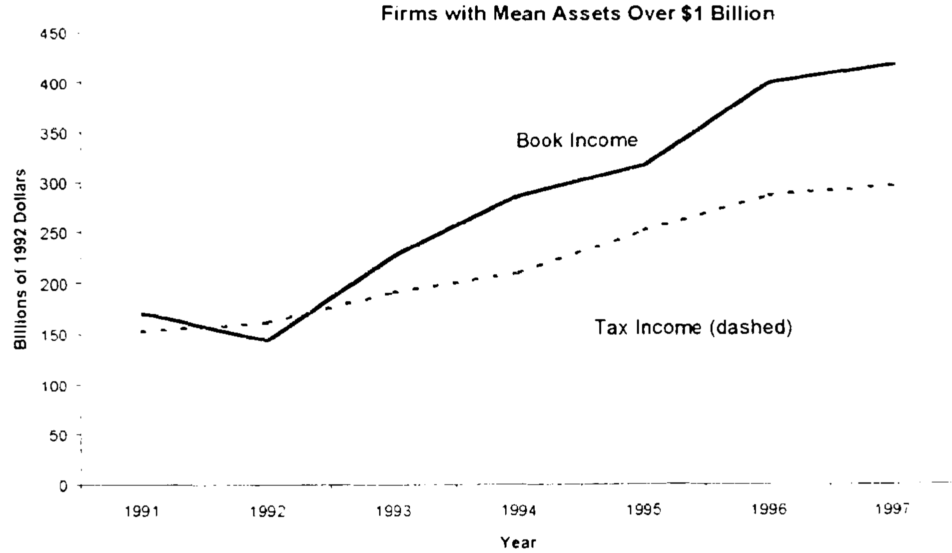
[2] As Peter Cobb, former Deputy Chief of Staff of the Joint Committee on Taxation recently stated: "You can't underestimate how many of America's greatest minds right now are being devoted to what economists would all say is totally useless economic activity."

One feature of many tax shelters is that they reduce taxable income and taxes without reducing book income. Corporate taxpayers report their book income on Schedule M-1 of Form 1120. Such data show that the difference between book income and taxable income for large corporations (average assets greater than $1 billion) increased between 1991 and 1997.[3] Current income reported on corporate tax returns (total receipts less total deductions) represented a much smaller share of book income (calculated as book income after tax, plus Federal taxes, less tax-exempt income) in 1997 than in the early 1990's. (See Figure 1.) Thus, even though corporate income reported on tax returns has increased markedly in the 1990's, book income has increased even faster. It is unclear how much of the divergence between tax and book income reflects tax shelter activity, but the data are clearly consistent with other evidence that the problem is significant.

Figure 1.
Book and Tax Corporate Income
Firms with Mean Assets Over $1 Billion



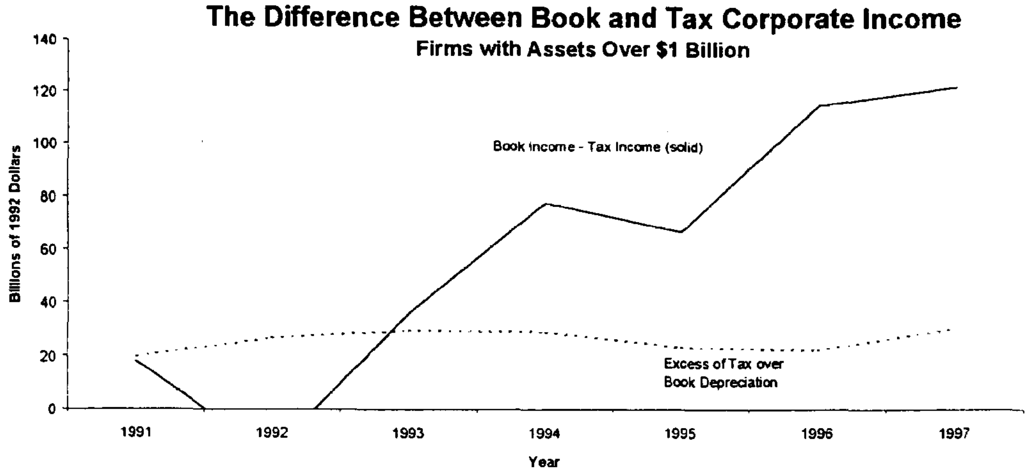
Book Income = After-tax book income from Schedule M-1 + Federal taxes - tax exempt interest
Tax Income = Total Receipts - Total Deductions
Corporations excluding S corporations, RICs, REITs, and Foreign Corporations
Source: Internal Revenue Service, Statistics of Income

Book and tax measures of income can diverge for many reasons that are unrelated to tax shelters. For example, increases in the rate of new investment can cause book and taxable income to diverge because tax depreciation is accelerated compared with book depreciation. But depreciation does not seem to be a significant factor. Figure 2 shows that the difference due to

[3] All estimates are based on a balanced panel of 745 corporations with mean asset size in excess of $1 billion, in 1992 dollars, over the years 1991 through 1997. Corporate tax data are only available through 1997. We did not use data before 1991 for this comparison because depreciation data from Schedule M-1 are not available before 1991. In addition, the detailed book data from before 1991 seem inconsistent with the post-1990 data, perhaps because of an accounting method change.

depreciation has changed little over the last several years while the difference between book and tax income continues to climb. Hence, the depreciation discrepancy is not a significant factor behind the divergence between the two income measures in recent years.[4]

Figure 2.
The Difference Between Book and Tax Corporate Income
Firms with Assets Over $1 Billion



Book Income = After-tax book income from Schedule M-1 + Federal taxes - tax exempt interest
Tax Income = Total Receipts - Total Deductions
Corporations excluding S corporations, RICs, REITs, and Foreign Corporations
Source: Internal Revenue Service, Statistics of Income

D. *Ad Hoc* Approach to Corporate Tax Shelters

To date, most attacks on corporate tax shelters have targeted specific transactions and have occurred on an *ad hoc*, after-the-fact basis – through legislation, administrative guidance, and litigation. In the past few years alone, Congress, the Treasury Department and the IRS have taken a number of actions to address specific corporate tax shelters. These include:

1. Two provisions enacted in 1996 and 1997 to prevent the abuse for tax purposes of corporate-owned life insurance (COLI).[5] Collectively, these two provisions were estimated by the Joint Committee on Taxation to raise over $18 billion over 10 years. As the then Chief of Staff of the Joint Committee on Taxation stated: "When you have a corporation wiring out a billion dollars of premium in the morning and then borrowing it

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[4] Other factors contribute to the gap between book and tax measures of income, including 1) the differential impact of the business cycle on the two measures, 2) increases in foreign based income that are reflected in book but not tax income and 3) differences in accounting treatment for stock options and their increased importance as a component of executive and employee compensation.

[5] Pub. L. No. 104-191, § 501 (1996); Pub. L. No. 105-34, § 1084 (1997)

back by wire in the afternoon and instantly creating with each year another $35 million of perpetual tax savings, that's a problem.... I think we were looking at a potential for a substantial erosion of the corporate tax base if something hadn't been done."[6]

2. Legislation enacted in 1998 to eliminate the ability of banks and other financial intermediaries to avoid corporate-level tax through the use of "liquidating REITs."[7] The Treasury Department's Office of Tax Analysis (OTA) estimated that eliminating this one tax shelter product alone would save the tax system approximately $34 billion over the next ten years.

3. The IRS ruling[8] addressing so-called lease-in, lease-out transactions, or "LILO" schemes. Like COLI, these transactions, through circular property flows and cash flows, offered participants millions of dollars in tax benefits with no real economic substance or risk. Based on the transactions we have been able to identify to date, OTA estimates that eliminating this tax shelter saved $10.5 billion over ten years.

4. Legislation signed into law on June 25, 1999, aimed at section 357(c) basis creation abuses.[9] In these transactions, taxpayers exploited the concept of "subject to" a liability and claimed increases in the bases of assets that resulted in bases far in excess of the assets' values.

5. Regulations[10] addressing fast-pay preferred stock transactions. These financing transactions purportedly allowed taxpayers to deduct both principal and interest. It was reported that one investment bank created nearly $8 billion of investments in a few months.

6. Notice 98-5[11] dealing with foreign tax credit abuses.

7. Recent administrative actions taken with respect to the "BOSS" transaction[12] and debt straddles,[13] the latter of which has been described as a "heads, I win; tails, I win" proposition for the taxpayer.

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[6] Kenneth Kies, Transcript of Federal Bar Association's Fourth Invitational Biennial Conference on the Tax Legislative Process, reprinted in 97 Tax Notes Today 21-38 (Jan. 31, 1997).

[7] Pub. L. No. 105-277, § 3001(a) (1998).

[8] Rev. Rul. 99-14, 1994-14 I.R.B. 3.

[9] Pub. L. No. 106-36, § 3001 (1999).

[10] Treas. Reg. § 1.7701(l)-3.

[11] 1998-3 I.R.B. 49.

[12] Notice 99-59, 1999-52 I.R.B. 761.

8. The Government's victories in several important corporate tax shelter cases–*ACM Partnership v. Commissioner*[14] and *ASA Investerings Partnership v. Commissioner*,[15] and those cases mentioned in footnote one of this testimony. In these cases, the courts disallowed tax benefits from transactions that lacked economic substance.

Addressing corporate tax shelters on a transaction-by-transaction, *ad hoc* basis, however, has substantial defects. First, because it is not possible to identify and address all (or even most) current and future sheltering transactions, this type of transaction-by-transaction approach is inadequate. There will always be transactions that are unidentified or not addressed by the legislation. As Treasury Secretary Lawrence H. Summers said: "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."[16]

Second, although the IRS has recently won some important cases involving corporate tax shelters, reliance on judicial decisions, which taxpayers may attempt to distinguish, is not the most efficient means of addressing corporate tax shelters. Litigation is expensive and time-consuming, both for the government and taxpayers, and frequently does not provide a coherent set of rules to be applied to subsequent transactions. Tax Court Judge Laro, speaking on his own behalf before the Tax Executives Institute last year,[17] acknowledged that the courts have provided little guidance on the amount of economic substance or business purpose sufficient for a transaction to be respected. He stated that such concepts "may require further development in the case law," but highlighted the difficulty with such an approach when he said that judges "decide cases one at a time...and don't make tax policy."

Third, addressing tax shelters on a piecemeal basis complicates the tax law. In the past few years alone, Congress has passed numerous provisions to prevent specific tax shelter abuses. The layering of provision upon provision may lead one to believe that there is a rule for every situation and thus what is not specifically proscribed is, by negative inference, allowed. In time these specific rules themselves are used in unintended ways to create corporate tax shelters.[18]

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[13] Rev. Rul. 2000-12, 2000-__ I.R.B. __.

[14] 73 T.C.M. (CCH) 2189 (1997), aff'd in part, rev'd in part, 157 F.3d 231 (3d Cir. 1998), cert. denied, 119 S.Ct. 1251 (1999).

[15] 76 T.C.M. (CCH) 325 (1998), aff'd, __ F.3d __ (D.C. Cir., Feb. 1, 2000).

[16] Lawrence H. Summers, "Tackling the Growth of Corporate Tax Shelters," Federal Bar Association, February 28, 2000.

[17] *BNA Daily Tax Report* (Oct. 28, 1999), G-2.

[18] So far this year, we have shut down by administrative action so-called "chutzpah trusts" which were similar to a structure shut down by Congress in 1997 and permutations of the section 357(c) product that Congress addressed in

Fourth, a legislative strategy that deals with tax shelter transactions on a piecemeal basis calls into question the viability of current rules and standards, particularly the common law tax doctrines such as sham transaction, business purpose, economic substance and substance-over-form. Finally, reliance on a transaction-by-transaction legislative approach to corporate tax shelters may embolden some promoters and participants to rush shelter products to market on the assumption that any Governmental reaction would be applied only on a prospective basis.

E. Temporary and Proposed Regulations

On February 28, 2000, the Treasury Department and the IRS issued three sets of temporary and proposed regulations requiring promoters to register confidential corporate tax shelters and to maintain lists of investors and requiring corporate taxpayers to disclose large transactions that have characteristics common to corporate tax shelters. In addition, the IRS announced it has created an Office of Tax Shelter Analysis (described below) to serve as the focal point for efforts to gather and analyze information relating to tax shelter activity and to coordinate appropriate responses. Together, these actions will enable the IRS to more quickly and effectively address transactions used to claim tax benefits that are not properly allowable under the Internal Revenue Code.

General scope and effect of new disclosure requirements

In general, the three regulations are designed to provide the IRS with better information about tax shelters and other tax-motivated transactions through a combination of registration and information disclosure by promoters and tax return disclosure by corporate taxpayers. The regulations are intended to require disclosure of transactions that should be subject to careful scrutiny by the IRS. The regulations are designed not to require disclosure of customary business transactions or transactions with tax benefits that the IRS has no reasonable basis to challenge. The regulations do not alter substantive tax rules, and thus disclosure under the regulations does not affect the legal determination whether tax benefits claimed by taxpayers are allowable.

Registration of tax shelters by promoters

The first set of regulations is issued under section 6111(d) of the Code as enacted by the Taxpayer Relief Act of 1997. These regulations require tax shelter promoters to register with the IRS transactions (1) that have been structured for a significant purpose of tax avoidance or evasion, (2) that are offered to corporate participants under conditions of confidentiality, and (3) for which the tax shelter promoters may receive fees in excess of $100,000.

The promoter registration requirements apply to confidential corporate tax shelters offered for sale after February 28, 2000. In general, registration of a confidential corporate tax shelter is required not later than the day that the first offering for sale of interests in such shelter occurs.

1999. In addition, we are now hearing about "son of LILO" transactions.

However, as a transition matter, no registration is required to be filed until 180 days after February 28, 2000.

List maintenance requirements for promoters

The second set of regulations, issued pursuant to section 6112 of the Code, requires promoters of corporate tax shelters to maintain lists of investors and copies of all offering materials and to make this information available for inspection by the IRS upon request. These requirements apply to transactions that have been structured for a significant purpose of tax avoidance or evasion (as defined under section 6111(d)), whether or not offered under conditions of confidentiality and whether or not the promoter fees may exceed $100,000.

These new list maintenance requirements apply to interests in corporate tax shelters acquired by investors after February 28, 2000. However, as a transition matter, the IRS will not ask to inspect the lists or offering materials until 180 days after February 28, 2000.

Reporting requirements for corporate taxpayers

The third set of regulations is issued pursuant to section 6011 of the Code and requires corporate taxpayers to disclose their participation in "reportable transactions" by attaching a short information statement to their income tax returns. In general, a separate statement will be required for each reportable transaction for each taxable year in which a corporation's federal income tax liability is affected by its participation in such a transaction. For the first taxable year in which a statement is attached to a taxpayer's return, a copy of the statement must be filed with the IRS in Washington, D.C. All of the information required to complete the statement should be readily available to taxpayers at the time their returns are filed.

Disclosure is generally required only for transactions that are expected to reduce a taxpayer's income tax liability by more than $5 million in a single taxable year or more than $10 million in multiple years and that have characteristics common to corporate tax shelters. However, these thresholds are lowered to $1 million and $2 million for certain transactions identified through published guidance as "listed transactions" (discussed below). Reporting generally is not required for customary business transactions or transactions with tax benefits that the IRS has no reasonable basis to challenge.

In general, disclosure is required only for reportable transactions entered into after February 28, 2000. However, disclosure is required for a listed transaction entered into on or before February 28, 2000 if the tax benefits of the transaction are first claimed on a return filed after February 28, 2000.

Notice 2000-15: Listed transactions

Under the regulations, promoter registration and taxpayer disclosure generally are required for certain listed transactions. The specific transactions currently designated as listed transactions are identified in Notice 2000-15, which was issued concurrently with the temporary and proposed regulations. The Treasury and the IRS have determined that each of those listed transactions involves a significant tax avoidance purpose and that the intended tax benefits are subject to disallowance under existing law. The list set forth in Notice 2000-15 may be supplemented from time to time, when other such tax avoidance transactions are identified.

F. Administration's Legislative Proposals

In its FY 2000 and 2001 Budgets, the Administration made several proposals designed to inhibit the growth of corporate tax shelters. These proposals build upon the common characteristics of corporate tax shelters and focus on the following areas:

(1) increasing disclosure of corporate tax shelter activities,

(2) increasing and modifying the penalty relating to the substantial understatement of income tax,

(3) codifying the economic substance doctrine, and

(4) providing consequences to all the parties to the transaction (e.g., promoters, advisors, and tax-indifferent, accommodating parties).

Increasing disclosure

Greater disclosure of corporate tax shelters would aid the IRS in identifying corporate tax shelters and would therefore lead to better enforcement by the IRS. Also, greater disclosure likely would discourage corporations from entering into questionable transactions. The probability of discovery by the IRS should enter into a corporation's cost/benefit analysis of whether to enter into a corporate tax shelter.

In order to be effective, disclosure must be both timely and sufficient. In order to facilitate examination of a particular taxpayer's return with respect to a questionable transaction, the transaction should be prominently disclosed on the return. Moreover, because corporate tax returns may not be examined for a number of years after they are filed, an "early warning" system should be required to alert the IRS to tax shelter "products" that may be promoted to, or entered into by, a number of taxpayers. Disclosure should be limited to the factual and legal essence of the transaction to avoid being overly burdensome to taxpayers.

Disclosure would be required if a transaction has certain of the objective characteristics identified above that are common in many corporate tax shelters. The Treasury Department believes that two forms of disclosure are necessary. Disclosure would be made on a short form separately filed with the National Office of the IRS.[19] Corporations entering into transactions

[19] The requirements and format for disclosure in the Administration's FY 2001 Budget proposal is similar to the

requiring disclosure would file the form by the due date of the tax return for the taxable year for which the transaction is entered into and would include the form in all tax returns to which the transaction applies. The form would require the taxpayer to provide a description of the characteristics that apply to the transaction. The form should be signed by a corporate officer who has, or should have, knowledge of the factual underpinnings of the transaction for which disclosure is required. Such officer should be made personally liable for misstatements on the form, with appropriate penalties for fraud or gross negligence and the officer would be accorded appropriate due process rights.

<u>Substantial understatement penalty</u>

In order to serve as an adequate deterrent, the risk of penalty for corporations that participate in corporate tax shelters must be real. The penalty also must be sufficient to affect the cost/benefit analysis that a corporation considers when entering into a tax shelter transaction

The Treasury Department believes that the substantial understatement penalty imposed on understatements of tax attributable to corporate tax shelters should be greater than the penalty generally imposed on other understatements. This view is shared by the staff of the Joint Committee on Taxation, the ABA, the NYSBA and others. Thus, to discourage the use of shelters, the Treasury Department would double the current-law substantial understatement penalty rate to 40 percent for corporate tax shelters. To encourage disclosure, the penalty rate would be reduced to 20 percent if the taxpayer files the appropriate disclosures.

In its FY 2000 Budget proposal, the Administration provided that the rate could not be further reduced below 20 percent or eliminated by a showing of reasonable cause (i.e., the penalty would be subject to a strict liability standard). Although one may rhetorically question whether there ever is any reasonable cause for entering into a corporate tax shelter transaction, many commentators have criticized the proposed elimination of the reasonable cause exception for corporate tax shelters. These commentators cited the potentially vague definitions of corporate tax shelter and tax avoidance transaction,[20] the allowance of a reasonable cause exception for other penalties, and basic fairness for opposing a "strict liability" penalty.

In light of the comments received, the Treasury Department modified its FY 2001 Budget proposal to provide that the substantial understatement penalty should be reduced or eliminated where the taxpayer properly discloses the transaction and the taxpayer has a reasonable belief that it has a strong chance of sustaining its tax position.

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requirements and format in the temporary and proposed regulations issued under section 6011 on February 28, 2000.
[20] These criticisms were addressed by the Treasury Department by modifying the definition of these terms.

Codify the economic substance doctrine

As evidenced by the comments from the ABA, AICPA, NYSBA, and others, corporate tax shelters are proliferating under the existing legal regime. This proliferation results, in part, because discontinuities in objective statutory or regulatory rules can lead to inappropriate results that have been exploited through corporate tax shelters. Current statutory anti-abuse provisions are limited to particular situations and are thus inapplicable to most current corporate tax shelters. Further, application of existing judicial doctrines has been inconsistent over time, which encourages the most aggressive taxpayers to pick and choose among the most favorable court opinions.

The current piecemeal approach to addressing corporate tax shelters has proven untenable, as (1) policymakers do not have the knowledge, expertise and time to continually address these transactions; (2) adding more mechanical rules to the Code adds to complexity, unintended results, and potential fodder for new shelters; (3) the approach may reward taxpayers and promoters who rush to complete transactions before the anticipated prospective effective date of any reactive legislation; and (4) the approach results in further misuse and neglect of common law tax doctrines. Thus, the Treasury Department believes that a codification of the economic substance doctrine is necessary in order to curb the growth of corporate tax shelters. While increased disclosure and changes to the penalty regime are necessary to escalate issues and change the cost/benefit analysis of entering into corporate tax shelters, these remedies are not enough if taxpayers continue to believe that they will prevail on the underlying substantive issue.

The centerpiece of the substantive law proposal is the codification of the economic substance doctrine first found in seminal case law such as *Gregory v. Helvering*[21] and most recently utilized in *ACM Partnership*[22] and the cases in footnote one. The economic substance doctrine requires a comparison of the expected pre-tax profits and expected tax benefits. This test is incorporated in the first part of the Administration's proposed definition of "tax avoidance transaction." Under that test, a tax avoidance transaction would be defined as any transaction in which the reasonably expected pre-tax profit (determined on a present value basis, after taking into account foreign taxes as expenses and transaction costs) of the transaction is insignificant relative to the reasonably expected net tax benefits (i.e., tax benefits in excess of the tax liability arising from the transaction, determined on a present value basis) of such transaction. In addition, the economic substance doctrine would apply to financing transactions (that do not lend themselves to a pre-tax profit comparison) by comparing the tax benefits claimed by the issuing corporation to the economic profits derived by the person providing the financing.

A tax benefit would be defined to include a reduction, exclusion, avoidance or deferral of tax, or an increase in a refund. However, the definition of tax benefit subject to disallowance

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[21] 293 U.S. 465 (1935).

[22] *ACM Partnership v. Comm.*, 73 T.C.M. (CCH) 2189, aff'd in part, rev'd in part, 157 F.3d 231 (3d Cir. 1998), cert denied, 119 S.Ct. 1251 (1999).

would not include those benefits that are clearly contemplated by the applicable Code provision (taking into account the Congressional purpose for such provision and the interaction of the provision with other provisions of the Code). Thus, tax benefits that would normally meet the definition, such as the low-income housing credit and deductions generated by standard leveraged leases, would not be subject to disallowance.

A similar approach to that discussed above can be found in H.R. 2255, the "Abusive Tax Shelter Shutdown Act of 1999," introduced by Messrs. Doggett, Stark, Hinchey and Tierney on June 17, 1999.

The Treasury Department continues to believe that it is necessary to codify the economic substance doctrine, thus requiring taxpayers to perform a careful analysis of the pre-tax effects of a potential transaction before they enter into it. The Treasury Department's proposed substantive provision is intended to be a coherent standard derived from the economic substance doctrine as enunciated in a body of case law to the exclusion of less developed, inconsistent decisions. Codification of the doctrine, while not creating a new doctrine, would create a consistent standard so that taxpayers may not choose between the conflicting decisions to support their position. Codification would isolate the doctrine from the facts of the cases so that taxpayers could not simply distinguish the cases based on the facts.

Consequences to other parties

Proposals to deter the use of corporate tax shelters should provide sanctions on other parties that participate in, and benefit from, a corporate tax shelter. These sanctions would reduce or eliminate the economic incentives for parties that facilitate sheltering transactions, thus discouraging those transactions. As the ABA stated in its recent testimony: "All essential parties to a tax-driven transaction should have an incentive to make certain that the transaction is within the law." With respect to corporate tax shelters, the "other parties" generally are promoters, advisors, and tax-indifferent parties that lend their tax-exempt status to the shelter transaction to absorb or deflect otherwise taxable income.

When Congress was concerned with the proliferation of individual tax shelters in the early 1980's, it enacted several penalty and disclosure provisions that applied to advisors and promoters. These provisions were tailored to the types of "cookie-cutter" tax shelter products then being developed. Similar provisions could be enacted that are tailored to corporate tax shelters.

Alternatively, with respect to promoters and advisors of corporate tax shelters, the Treasury Department proposes to affect directly their economic incentives by levying a penalty excise tax of 25 percent upon the fees derived by such persons from the corporate tax shelter transaction. Only persons who perform services in furtherance of the corporate tax shelter would be subject to the proposal, and appropriate due process procedures for such parties with respect to an assessment would be provided.

A tax-indifferent party often has a special tax status conferred upon it by operation of statute or treaty. To the extent such person is using this status in an inappropriate or unforeseen manner, the system should not condone such use. Imposing a tax on the income allocated to tax-indifferent parties could deter the inappropriate rental of their special tax status, limiting their participation in corporate tax shelters, and thus reducing other taxpayers' use of shelters that utilize this technique.

The Treasury Department proposes to require tax-indifferent parties to include in income (either as unrelated business taxable income or effectively connected income) income earned in a corporate tax shelter transaction. To the extent such parties are outside the U.S. tax jurisdiction, such liability would be joint and several with the U.S. corporate participant. The proposal would apply only to tax-indifferent parties that are trading on their special tax status and such parties would have appropriate due process rights.

G. IRS Administrative Actions

The IRS currently is undergoing a substantial restructuring in which it will be reorganized into divisions based on types of taxpayers. The newly established Office of Tax Shelter Analysis is part of the Large and Mid-Size Business Division located in Washington, D.C. The office is expected to serve as a clearinghouse for all information relating to tax shelter activity that comes to the attention of the IRS, including information relating to tax shelters affecting taxpayers other than those served by the Large and Mid-Size Business Division.

The Office of Tax Shelter Analysis will, among other things, review all disclosures by promoters and taxpayers under the new disclosure regulations for the purposes of identifying potentially improper tax shelter transactions, identifying taxpayers that have participated in such transactions, and better assessing the overall extent of tax shelter activity by corporate taxpayers. Where it is determined to be warranted, the Office of Tax Shelter Analysis will also coordinate the IRS's follow-up efforts relating to such disclosed transactions.

The Office of Tax Shelter Analysis, acting with the Office of Chief Counsel and Treasury's Office of Tax Policy, will evaluate the tax treatment of new forms of tax-structured transactions at the earliest possible time. This review process is necessary not only to identify improper tax shelters, but also to protect taxpayers that engage in legitimate business transactions. The IRS wants to ensure that transactions are not labeled as improper tax shelters merely because they are novel or complex.

In addition to analyzing transactions that are reported to the IRS under the new disclosure rules, the Office of Tax Shelter Analysis will provide a centralized point for the review of tax shelter transactions that come to the attention of the IRS in other ways, including transactions examined by field personnel and those that are disclosed to the IRS by taxpayers, practitioners, and other members of the public. The Treasury Department will work closely with the IRS to create appropriate systems and procedures to centralize review and analysis, to ensure fair, consistent, and expeditious consideration of corporate tax shelter issues.

II. Penalties and Interest

A. General Discussion

As stated in its report, Treasury focused its penalty and interest report 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 (1) fosters and maintains the high degree of voluntary compliance among the vast majority of taxpayers, (2) encourages taxpayers who are not compliant to expeditiously resolve noncompliance problems with the IRS, and (3) 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 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 report 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 RRA98. 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.

B. 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 RRA98 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 RRA98.

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.

***

Mr. Chairman, the proliferation of corporate tax shelters presents an unacceptable and growing level of tax avoidance behavior by wasting economic resources, reducing tax receipts, and threatening the integrity of the tax system. This morning we have laid out the rationale for our suggested approach for combating this problem, and discussed why we believe that existing law does not provide sufficient tools to combat this behavior. We look forward to working with you and the members of the Committee to address this important problem, as we have in the past to curb specific abuses.

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. 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.

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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 AT 2:30 P.M.
July 19, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $29,250 MILLION

The Treasury will auction $17,750 million of 2-year notes and $11,500 million of 5-year notes to refund $16,621 million of publicly-held securities maturing July 31, 1995, and to raise about $12,625 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $562 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 $982 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders.

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

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

If the auction of 2-year Treasury notes to be held Tuesday, July 25, 1995, results in a high yield in a range of 5.500 percent through and including 5.624 percent, the 2-year notes will be considered an additional issue of the outstanding 5-1/2 percent 5-year notes of Series P-1997 (CUSIP No. 912827G30) originally issued July 31, 1992. The additional issue of the notes would have the same CUSIP number as the outstanding notes, which are currently outstanding in the amount of $12,104 million.

If the auction results in the issuance of an additional amount of the Series P-1997 notes rather than a new 2-year note, it will be noted at the bottom of the Treasury's auction results press release.

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Attachment

RR-444

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED JULY 31, 1995

July 19, 1995

Offering Amount	$17,750 million	$11,500 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AG-1997	N-2000
CUSIP number	912827 U5 9	912827 U6 7
Auction date	July 25, 1995	July 26, 1995
Issue date	July 31, 1995	July 31, 1995
Dated date	July 31, 1995	July 31, 1995
Maturity date	July 31, 1997	July 31, 2000
Interest rate	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield	Determined at auction	Determined at auction
Interest payment dates	January 31 and July 31	January 31 and July 31
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

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TREASURY NEWS
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Remarks as prepared for delivery
July 12, 1995

Remarks
by
Ronald K. Noble
Under Secretary for Enforcement
Department of the Treasury
before the
National Association of Blacks in Criminal Justice
Denver, Colorado

MEMBERS OF THE NATIONAL ASSOCIATION OF BLACKS IN CRIMINAL JUSTICE, I AM HONORED AND HAPPY TO BE HERE TONIGHT. I AM HONORED BECAUSE YOUR ORGANIZATION IS ON THE CUTTING EDGE OF LAW ENFORCEMENT. I AM HAPPY TO BE HERE BECAUSE I DO NOT OFTEN ENOUGH HAVE THE OPPORTUNITY TO SPEAK DIRECTLY WITH RANK AND FILE MEMBERS OF LAW ENFORCEMENT.

BEFORE TURNING TO SOME PRESSING LAW ENFORCEMENT ISSUES, I WANT TO CONGRATULATE YOU ON YOUR CONFERENCE AND YOUR ACHIEVEMENTS. IN THIS ADMINISTRATION WE BELIEVE IN EXPANDING OPPORTUNITY, AND WE BELIEVE THAT A PROPER ROLE FOR GOVERNMENT IS EMPOWERING ALL PEOPLE TO MAKE THE VERY BEST OF THEIR LIVES.

AFRICAN AMERICANS IN LAW ENFORCEMENT ARE ESSENTIAL TO HEALTHY CIVIC LIFE. IN OUR COMMUNITY, WE IMPROVE COMMUNICATION AND UNDERSTANDING. WE MAKE POSSIBLE A SENSE OF JUSTICE. AND WE MAKE IT MORE LIKELY THAT JUSTICE WILL BE ACHIEVED.

I AM PROUD TO SERVE IN AN ADMINISTRATION THAT INCLUDES AFRICAN AMERICANS AT THE HIGHEST LEVELS OF LAW ENFORCEMENT, INCLUDING DR. LEE BROWN AS THE HEAD OF THE OFFICE OF NATIONAL DRUG CONTROL POLICY. IN MY POSITION AT TREASURY, I HAVE STRENGTHENED OUR DEMAND REDUCTION PROGRAMS AND OUR BORDER DRUG INTERDICTION. OUR LAW ENFORCEMENT BUREAUS PROVIDE MENTORS AND TUTORS IN OUR SCHOOLS, TEACH YOUNG PEOPLE RESISTANCE TO GANGS, AND BECOME ROLE MODELS TO OUR YOUTH.

RR-425

I HAVE WORKED TO ACHIEVE DIVERSITY IN TREASURY'S ENFORCEMENT BUREAUS. WE NOW HAVE A FEMALE HEAD OF U.S. INTERPOL; A FEMALE DIRECTOR OF TREASURY'S ASSET FORFEITURE FUND; I APPOINTED THE FIRST AFRICAN AMERICAN ACTING DIRECTOR OF A TREASURY BUREAU; THE FIRST AFRICAN AMERICAN ASSISTANT COMMISSIONER AT CUSTOMS, AND THE FIRST AFRICAN AMERICAN ASSISTANT DIRECTOR AT ATF.

DIVERSITY ALONE IS NOT THE ANSWER. THERE HAS RECENTLY BEEN A DISTURBING REPORT THAT FEDERAL LAW ENFORCEMENT AGENTS HAVE BEEN PARTICIPATING IN AN ANNUAL "GOOD OLD BOYS" EVENT THAT INVOLVES OPENLY RACIST ACTS. IF THESE ACTIONS OCCURRED AS REPORTED THEY ARE OUTRAGEOUS AND INCONSISTENT WITH BEHAVIOR BECOMING A LAW ENFORCEMENT OFFICER. LET ME ASSURE YOU THAT WHEN I LEARN THE FULL FACTS -- AN INQUIRY IS UNDERWAY -- I WILL ENSURE THAT APPROPRIATE ACTION IS TAKEN. THE ONE POSITIVE THING I CAN SAY ABOUT THE REPORTS I'VE HEARD SO FAR IS THAT A WHITE AND A BLACK AGENT VENTURED TO THIS EVENT TOGETHER THIS YEAR. WHEN THEY UNDERSTOOD THE TONE OF THE GROUP, THE TWO OF THEM LEFT TOGETHER AS WELL, AND REPORTED WHAT HAD OCCURRED.

BUT ALL OF THE EFFORT AND ACHIEVEMENT WE ARE MAKING IN THE AREA OF DIVERSITY AND EQUALITY AND DIGNITY IS BEING CHALLENGED BY AN OMINOUS DEVELOPMENT: THE MANY ATTACKS ON FEDERAL LAW ENFORCEMENT ACROSS THIS COUNTRY.

NEXT WEEK THE HOUSE OF REPRESENTATIVES WILL BEGIN HOLDING A SERIES OF HEARINGS ON THE EVENTS THAT OCCURRED TWO YEARS AGO AT WACO, TEXAS. THE FIRST FOUR DAYS OF THESE HEARINGS WILL FOCUS ON THE ROLE OF THE BUREAU OF ALCOHOL TOBACCO AND FIREARMS AT WACO AND THE REVIEW OF ATF'S INVESTIGATION OF DAVID KORESH THAT SECRETARY BENTSEN MADE PUBLIC IN SEPTEMBER 1993 . THESE HEARINGS, WHICH COVER GROUND ALREADY REVIEWED BY CONGRESS LAST YEAR, ARE VERY MUCH ON MY MIND.

ALSO ON MY MIND DURING THESE PAST MONTHS SINCE THE BOMBING OF THE FEDERAL BUILDING IN OKLAHOMA CITY ARE THE ATTACKS ON FEDERAL LAW ENFORCEMENT, AND IN PARTICULAR ON THE BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS. ATF IS A VERY IMPORTANT MEMBER OF THE TREASURY ENFORCEMENT FAMILY. TONIGHT I WOULD LIKE TO SHARE WITH YOU SOME OF MY THOUGHTS ABOUT ATF, AND ABOUT THE VARIOUS INVESTIGATIONS OF WACO.

AS POLICE IN SOME OF THE MOST DANGEROUS NEIGHBORHOODS OF OUR NATION'S CITIES, YOU FACE VIOLENCE AND VILIFICATION BY ARMED CRIMINALS EVERY DAY WHEN YOU DO THE WORK OF ENFORCING OUR NATION'S LAWS. BUT I AM CERTAIN THAT SINCE YOU HAVE BEEN WORKING AT YOUR JOBS, YOU HAVE NOT AWAKENED TO FULL PAGE ADVERTISEMENTS IN YOUR MORNING NEWSPAPERS CALLING YOU AND YOUR ORGANIZATIONS FASCISTS AND THUGS. BUT THIS IS PRECISELY WHAT HAS HAPPENED TO THE ATF AND ATF AGENTS THIS PAST YEAR. THIS NAME CALLING HAS HAPPENED IN NEWSPAPERS AND IT HAS EVEN HAPPENED IN CONGRESS.

AS THE SON OF A MILITARY FAMILY, I VIVIDLY REMEMBER THE 1960'S WHEN SOLDIERS RETURNING FROM VIET NAM WERE CALLED BABY KILLERS, AND WHEN POLICE WERE CALLED PIGS AND OTHER EPITHETS THAT I WILL NOT REPEAT HERE, BY CITIZENS WHO OPPOSED THE WAR IN VIET NAM. THAT LANGUAGE WAS WRONG AND TERRIBLY DIVISIVE. IT IS THE KIND OF VICIOUS, UNFAIR, AND DESTRUCTIVE RHETORIC THAT ATF AND ITS AGENTS FACE TODAY. IT IS NOT ONLY WRONG. IT IS NOT ONLY MOTIVATED BY THE LOWEST FORM OF POLITICS. BUT IT DEEPLY IMPAIRS THE MORALE OF THE AGENTS ON THE LINE.

I AM AWARE THAT SOME PEOPLE BELIEVE THAT THERE ARE LAW ENFORCEMENT AGENTS WHO ARE OUT OF CONTROL AND WHO MISUSE THEIR AUTHORITY. FROM TIME TO TIME POLICE OFFICERS SOMETIMES OVERSTEP THEIR AUTHORITY. BUT, AS I OFTEN TELL MY STAFF , "I AM AN EVIDENCE MAN, SHOW ME THE EVIDENCE." I HAVE <u>NOT</u> SEEN EVIDENCE THAT ATF OR OTHER TREASURY AGENCIES ARE OUT OF CONTROL AND USING EXCESSIVE FORCE AGAINST CITIZENS. IF, HOWEVER, YOU OR ANYONE IN YOUR COMMUNITIES ARE AWARE OF ANY MISUSE OF AUTHORITY BY TREASURY LAW ENFORCEMENT AGENTS, PLEASE BRING THEM TO MY ATTENTION, AND I ASSURE YOU THEY WILL BE THOROUGHLY INVESTIGATED.

WHY IS ATF BEING ATTACKED NOW? WE ALL RECOGNIZE THAT THERE IS ARE GROUPS IN OUR COUNTRY WHO DO NOT SUPPORT THE FIREARMS LAWS THAT WERE PASSED WITH THE OVERWHELMING SUPPORT OF THE AMERICAN PUBLIC. ATF IS THE PRINCIPAL AGENCY CHARGED WITH ENFORCING THOSE LAWS. THE MOST EXTREME OPPONENTS OF THESE LAWS ARE VILIFYING THE DEDICATED MEN AND WOMEN OF ATF. THEIR OBJECTIVE IS TO UNDERMINE ATF'S ABILITY TO ENFORCE THE LAWS, TO UNDERMINE THE PUBLIC SUPPORT FOR THE LAWS, AND ULTIMATELY TO WEAKEN THE LAWS THEMSELVES.

LET'S NOT CONFUSE THIS DESTRUCTIVE AGENDA WITH PROTECTED SPEECH. WE LIVE IN A DEMOCRACY THAT CHERISHES AND PROTECTS PUBLIC DEBATE ON IMPORTANT ISSUES. FOR THOSE WHO OPPOSE THE FIREARMS LAWS, IT <u>IS</u> LEGITIMATE TO CRITICIZE THE LAW IF YOU DON'T LIKE IT.

BUT IT IS WRONG TO HARASS, INTIMIDATE, AND THREATEN THOSE WHO ENFORCE THE LAW, AS AN EXPRESSION OF OPPOSITION TO LAWS LIKE BRADY AND THE ASSAULT WEAPONS BAN. LAW ENFORCEMENT AGENTS WHO ARE DOING THE DANGEROUS WORK OF PROTECTING THE REST OF SOCIETY SHOULD NOT BE USED AS PAWNS IN A POLITICAL FIGHT. DESPITE THE SHAMEFUL RHETORIC DIRECTED AT THEM, THE AGENTS OF ATF WILL NOT BE DETERRED FROM DOING THEIR SWORN DUTY.

I CANNOT PROTECT ATF AGENTS FROM THE HARM AND THE HURT AND THE INDIGNITY OF POLITICALLY MOTIVATED SLURS. BUT I CAN ASK YOU, MANY OF WHOM I AM SURE HAVE WORKED SIDE BY SIDE WITH ATF AGENTS, TO REFLECT UPON SOME OF THE HEROIC LAW ENFORCEMENT WORK PERFORMED BY ATF IN OUR NATION'S CITIES. THE BEST WAY TO COUNTER THESE INSULTS IS WITH THE JUST PRAISE THAT THESE MEN AND WOMEN HAVE EARNED.

THIS IS THE TRUE ATF RECORD:

- ATF IS IN THE FOREFRONT OF LAW ENFORCEMENT'S STRUGGLE AGAINST GUN VIOLENCE IN OUR CITIES AND AMONG OUR YOUTH. ATF HAS FORMED **21 ACHILLES TASK FORCES** WITH STATE AND LOCAL LAW ENFORCEMENT OFFICERS IN MAJOR CITIES WITH HIGH VIOLENT CRIME RATES. BETWEEN 1988 AND 1994, THE ACHILLES PROGRAM TOOK **6,251 VIOLENT CRIMINAL OFFENDERS OFF THE STREETS.**

- ATF CONFRONTS SOCIETY'S MOST DANGEROUS CRIMINALS. OF THE 10,000 SUSPECTS ATF REFERRED FOR PROSECUTION IN 1994, **47 PERCENT OF THESE WERE CONVICTED FELONS. 49 PERCENT WERE INVOLVED IN NARCOTICS TRAFFICKING. 25 PERCENT HAD VIOLENT CRIMINAL HISTORIES.**

- ATF ALSO PROVIDES SCIENTIFIC EXPERTISE AND GUN TECHNOLOGY SUPPORT FOR OTHER LAW ENFORCEMENT AGENCIES. IN NOVEMBER 1994, TWO FBI AGENTS AND A D.C. POLICE DETECTIVE WERE KILLED BY A SUSPECT IN AN UNPROVOKED SHOOTING INCIDENT INSIDE THE D.C. POLICE HEADQUARTERS. ATF TRACED THE MURDER WEAPON TO A GUN TRAFFICKING RING RESPONSIBLE FOR TRAFFICKING FIREARMS FROM ALABAMA TO WASHINGTON, D.C. THREE MEN ASSOCIATED WITH THE RING HAVE BEEN CONVICTED ON CHARGES OF VIOLATING FEDERAL FIREARMS LAWS.

- AFTER THE WORLD TRADE CENTER BOMBING, IT WAS AN ATF EXPLOSIVES TECHNICIAN AND A MEMBER OF THE NEW YORK CITY BOMB SQUAD THAT FOUND THE KEY PIECE OF EVIDENCE -- THE

VEHICLE IDENTIFICATION NUMBER FROM A RENTED VAN -- THAT ALLOWED ATF, THE FBI AND THE NEW YORK CITY POLICE TO IDENTIFY AND BRING TO JUSTICE THE ISLAMIC FUNDAMENTALISTS ACCUSED IN THE BOMBING.

ATF AGENTS ARE WORKING HAND-IN-HAND WITH OTHER FEDERAL, STATE , AND LOCAL LAW ENFORCEMENT AGENCIES TO SOLVE THE HORRIBLE BOMBING IN OKLAHOMA CITY. AFTER MCVEIGH WAS STOPPED FOR A TRAFFIC VIOLATION, AN ATF AGENT WAS INSTRUMENTAL IN IDENTIFYING TIMOTHY MCVEIGH, WHICH LED TO HIS ARREST IN THE OKLAHOMA CITY BOMBING CASE.

FOR THESE, AND OTHER ACTIONS, ATF AGENTS, AND ALL LAW ENFORCEMENT OFFICERS, DESERVE THE FULL SUPPORT AND RESPECT OF THE CONGRESS AND THE AMERICAN PEOPLE, NOT THEIR DISDAIN. NEVERTHELESS, THERE IS AN UNPRECEDENTED SWELL OF VIOLENCE, HATRED, AND DISRESPECT FOR FEDERAL LAW ENFORCEMENT OFFICERS. IN A SOCIETY THAT ONE ROSE UP AGAINST EXTREMIST RHETORIC AND STOOD WITH OUR LOCAL POLICE, WE HAVE IN SOME QUARTERS BECOME THE "BAD GUYS" AND PEOPLE WHO OPENLY PREACH DEFIANCE OF THE LAW HAVE BECOME THE "GOOD GUYS."

GROUPS OR INDIVIDUALS PREACHING "STATE'S RIGHTS," "COUNTY SUPREMACY," OR ANARCHY AS DOES THE UNABOMER, OR OTHER SIMILAR THEMES ADVOCATE THAT CITIZENS SHOULD OPPOSE, BY FORCE IF NECESSARY, THE FEDERAL GOVERNMENT. BECAUSE CONGRESS HAS GIVEN ATF PRINCIPAL RESPONSIBILITY FOR ENFORCING OUR NATION'S GUN LAWS, THESE GROUPS SEE ATF AS THEIR "ENEMY." THE HATE MAIL RECEIVED BY ATF AGENTS FROM CITIZENS WITH AN EXTREME FOCUS ON GUNS IS BOTH FRIGHTENING AND SOBERING.

THIS IS THE ENVIRONMENT IN WHICH THE WACO HEARINGS IN CONGRESS WILL TAKE PLACE. BUT LET ME SAY THIS: LAW ENFORCEMENT SHOULD NOT BE ABOVE CRITICISM. WHEN WE ARE WRONG -- WHEN WE OVERSTEP OUR LEGITIMATE AUTHORITY OR SIMPLY MAKE MISTAKES -- WE MUST CONCEDE OUR MISTAKES, LEARN FROM THEM, AND MOVE FORWARD. THIS IS WHAT WE DID AFTER WACO: WE TOOK A HARD LOOK AT MISTAKES, PRESENTED THEM TO THE PUBLIC FOR SCRUTINY, AND MOVED FORWARD BASED ON THE LESSONS LEARNED.

ON FEBRUARY 28, 1993, FOUR BRAVE ATF AGENTS WERE KILLED WHILE ATTEMPTING TO EXECUTE A LAWFUL SEARCH AND ARREST WARRANT ON DAVID KORESH AT THE BRANCH DAVIDIAN COMPOUND IN WACO. ON APRIL

19, 1993, DURING THE FBI RAID AIMED AT BRINGING AN END TO THE STAND-OFF, DAVID KORESH AND HIS FOLLOWERS SET FIRE TO THE COMPOUND AND KILLED MANY INNOCENT CHILDREN.

PRESIDENT CLINTON AND SECRETARY BENTSEN, THE CONGRESS AND THE PUBLIC, ALL WANTED ANSWERS. PRESIDENT CLINTON DIRECTED BOTH TREASURY AND THE JUSTICE DEPARTMENT TO CONDUCT VIGOROUS AND THOROUGH INVESTIGATIONS OF WHAT HAD LED TO THE LOSS OF LAW ENFORCEMENT AND CIVILIAN LIVES.

SECRETARY BENTSEN ASKED ME TO LEAD THE TREASURY DEPARTMENT'S REVIEW OF ATF'S INVOLVEMENT, FROM THE BEGINNING OF THE INVESTIGATION THROUGH THE UNSUCCESSFUL EFFORT TO EXECUTE SEARCH AND ARREST WARRANTS. HE DEMANDED THAT THE INVESTIGATION BE HONEST, UNCOMPROMISING, AND COMPREHENSIVE.

TO ENSURE THAT THE REPORT WAS IMPARTIAL AND COMPREHENSIVE, SECRETARY BENTSEN ENLISTED THREE INDIVIDUALS OF NATIONAL PROMINENCE AND THE HIGHEST INTEGRITY -- PULITZER PRIZE WINNING JOURNALIST EDWIN GUTHMAN, WATERGATE PROSECUTOR HENRY RUTH, AND LOS ANGELES POLICE CHIEF WILLIE WILLIAMS. THEIR ROLE WAS TO PROVIDE GUIDANCE TO THE INVESTIGATION, CONSIDER ITS FINDINGS, AND ASSESS THE FINAL REPORT. THEY RECEIVED NO PAYMENT FOR THEIR SERVICES. TREASURY'S OFFICE OF THE INSPECTOR GENERAL WORKED CLOSELY WITH THE REVIEW TEAM TO ENSURE THAT THE REVIEW WAS THOROUGH AND UNBIASED.

WE ASSEMBLED AN INVESTIGATIVE TEAM OF SEVENTEEN SENIOR INVESTIGATORS FROM THE SECRET SERVICE, THE CUSTOMS SERVICE, THE IRS, AND THE FINANCIAL CRIMES ENFORCEMENT NETWORK. NO ATF PERSONNEL TOOK PART IN THE REVIEW.

THE REVIEW TEAM ALSO CONSULTED WITH 10 NON-TREASURY EXPERTS IN TACTICAL OPERATIONS, FIREARMS, AND EXPLOSIVES. LIKE THE INDEPENDENT REVIEWERS, THE INDEPENDENT EXPERTS SERVED WITHOUT PAY.

WE ALL KNOW HOW DIFFICULT IT IS FOR ANY ORGANIZATION TO JUDGE ITS OWN. IT CAN BE ESPECIALLY PAINFUL IN THE LAW ENFORCEMENT COMMUNITY WHERE SUCCESS, AND SOMETIMES SURVIVAL, DEPENDS ON COMRADERIE AND LOYALTY. ONE OF THE SENIOR EXECUTIVES IN MY OFFICE LIKENED THE WACO REVIEW TO CONDUCTING OPEN HEART SURGERY ON YOURSELF, WITHOUT ANAESTHESIA.

IN CHOOSING THE MEMBERS OF THE REVIEW TEAM, MY FIRST PRIORITY WAS TO ASSEMBLE THE BEST INVESTIGATIVE TEAM COMPOSED OF INDIVIDUALS WITH THE INTEGRITY AND THE COMMITMENT TO FIND OUT WHAT EXACTLY HAPPENED. I CAN ASSURE YOU, THE REVIEW TEAM EXCEEDED MY HIGHEST HOPES IN THIS REGARD.

AT THE SAME TIME, WE ALSO ENSURED THAT THE INVESTIGATION TEAM INCLUDED PEOPLE OF COLOR AND WOMEN. INDEED, THE WACO REVIEW TEAM INCLUDED 8 AFRICAN-AMERICANS, 7 WOMEN, 1 HISPANIC-AMERICAN, AND 1 ASIAN-AMERICAN.

OVER A 5-MONTH PERIOD, BETWEEN MAY AND OCTOBER 1993, MEMBERS OF THE TEAM TRAVELLED THE COUNTRY AND CONDUCTED OVER 500 INTERVIEWS TO DETERMINE WHAT HAPPENED NEAR WACO AND WHY. WE RECEIVED UNQUALIFIED COOPERATION FROM THE HUNDREDS OF ATF AGENTS WHO WERE INTERVIEWED. WITHOUT THEIR SUPPORT, OUR DIFFICULT TASK WOULD HAVE BEEN RENDERED ALL BUT IMPOSSIBLE.

SECRETARY BENTSEN ISSUED TREASURY'S 220 PAGE REPORT ON SEPTEMBER 30, 1993. IT WAS CRITICAL OF ATF AND MAIN TREASURY. MAJOR NEWSPAPERS PRAISED THE REPORT FOR ITS CANDOR AND THOROUGHNESS.

THE TREASURY REPORT MAKES CLEAR THAT THE EVENTS AT WACO WERE UNUSUAL AND THERE WERE PLENTY OF LESSONS TO LEARN. IN RESPONSE, BOTH ATF AND MAIN TREASURY HAVE MADE ORGANIZATIONAL REFORMS.

AFTER THE REPORT WAS ISSUED, NUMEROUS PERSONNEL CHANGES WERE MADE, BOTH IN WASHINGTON AND IN THE FIELD. THE LEADERSHIP AT ATF HEADQUARTERS WAS REPLACED. THE DIRECTOR OF THE ATF RETIRED. I APPOINTED THEN SECRET SERVICE DIRECTOR JOHN MAGAW, A THIRTY FOUR YEAR VETERAN OF LAW ENFORCEMENT AND A KNOWN REFORMER AS THE NEW DIRECTOR. THE 2 RAID COMMANDERS WERE RELIEVED OF THEIR LAW ENFORCEMENT DUTIES. THEY NO LONGER WEAR BADGES, CARRY GUNS, OR SUPERVISE LINE AGENTS. THEY WERE DISCIPLINED FOR ERRORS IN JUDGMENT AND FOR FALSE AND MISLEADING STATEMENTS THEY MADE FOLLOWING THE RAID.

SINCE THE WACO INCIDENT, FOUR SEPARATE CONGRESSIONAL COMMITTEES HAVE HELD SEVEN DAYS OF HEARINGS ON ATF'S ROLE AT WACO. NOW TWO MORE HOUSE SUBCOMMITTEES ARE HOLDING HEARINGS NEXT WEEK. I HAVE SEEN THE PROPOSED SCHEDULE FOR THE HEARINGS. THE MEMBERS ARE PLANNING TO ASK THE SAME BASIC QUESTIONS THAT WERE ADDRESSED TWO YEARS AGO IN THE TREASURY REVIEW.

LET ME TELL YOU WHAT THESE BASIC QUESTIONS ARE AND HOW THE TREASURY REVIEW ANSWERED THEM.

__FIRST__, WAS THE INVESTIGATION OF DAVID KORESH AND HIS FOLLOWERS TO DETERMINE WHETHER THERE WAS PROBABLE CAUSE TO BELIEVE THAT FEDERAL FIREARMS LAWS HAD BEEN VIOLATED PROPERLY CONDUCTED?

MY IMPRESSION IS THAT CRITICS WORRY THAT ATF SINGLED OUT KORESH AND HIS FOLLOWERS FOR INVESTIGATION BECAUSE THEY WERE AN UNCONVENTIONAL RELIGIOUS GROUP. THAT IS NOT WHAT HAPPENED. DAVID KORESH WAS INVESTIGATED FOR FIREARMS VIOLATIONS, NOT HIS RELIGIOUS BELIEF OR RELIGIOUS PRACTICES.

ATF'S INVESTIGATION BEGAN IN LATE MAY 1992 WHEN THE SHERIFF OF MCLENNAN COUNTY, TEXAS, ASKED ATF TO INVESTIGATE SUSPICIOUS UPS DELIVERIES TO CERTAIN PERSONS RESIDING AT THE BRANCH DAVIDIAN COMPOUND. THESE DELIVERIES INCLUDED MORE THAN $10,000 WORTH OF FIREARMS, INERT GRENADE CASINGS, AND A SUBSTANTIAL QUANTITY OF BLACK POWDER.

ATF BEGAN A FORMAL INVESTIGATION ON JUNE 9, 1992 TO PURSUE EVIDENCE OF TWO VIOLATIONS: (1) THE ILLEGAL MANUFACTURE OF MACHINE GUNS FROM COMPONENT PARTS, AND (2) THE ILLEGAL MANUFACTURE AND POSSESSION OF DESTRUCTIVE DEVICES, INCLUDING EXPLOSIVE BOMBS AND GRENADES AND THE MATERIALS NECESSARY TO PRODUCE THEM.

BY NOVEMBER 1992, THE ASSISTANT U.S. ATTORNEY WAS SATISFIED THAT PROBABLE CAUSE EXISTED TO SUPPORT SEARCH AND ARREST WARRANTS. THE FEDERAL MAGISTRATE-JUDGE WHO ISSUED THE WARRANTS AGREED.

WHEN THE COMPOUND WAS SEARCHED AFTER THE FIRE, THE FOLLOWING ILLEGAL WEAPONS WERE RECOVERED:

48 MACHINE GUNS
70 SILENCERS
4 FUNCTIONAL PRACTICE HAND GRENADES
DOZENS OF GRENADE COMPONENTS

THE TREASURY REVIEW TEAM CONSULTED TWO WEAPONS EXPERTS AND TWO EXPLOSIVES EXPERTS. EVERYONE CONSULTED CONCLUDED THAT THE EVIDENCE GATHERED BY ATF AMOUNTED TO PROBABLE CAUSE OF VIOLATIONS.

MOREOVER, AT THE TRIAL OF THE 11 BRANCH DAVIDIANS ON WEAPONS AND MANSLAUGHTER CHARGES LAST YEAR, NONE OF THE DEFENSE ATTORNEYS CHALLENGED THE WARRANTS.

THE SECOND QUESTION BEING ASKED BY CONGRESS IS, ONCE THE THRESHOLD FOR PROBABLE CAUSE FOR A SEARCH WARRANT TO SEARCH THE BRANCH DAVIDIAN COMPOUND WAS MET, DID THE ATF DEVELOP AN APPROPRIATE PLAN FOR EXECUTING THE WARRANT?

THE TREASURY REVIEW FOUND THAT THERE WERE SERIOUS FLAWS IN THE PROCESS OF PLANNING TO EXECUTE THE WARRANTS. THERE WAS POOR INTELLIGENCE GATHERING AND ANALYSIS. ATF TOO QUICKLY DISMISSED ALTERNATIVES TO EXECUTING WARRANTS, SUCH AS THE POSSIBILITY OF LURING KORESH OFF THE PREMISES AND ARRESTING HIM AWAY FROM THE COMPOUND.

THE THIRD AREA OF CONGRESSIONAL QUESTIONING CONCERNS THE RAID ITSELF, DID THE ATF CARRY OUT THE PLAN IN AN APPROPRIATE MANNER?

FIRST, THE REVIEW POINTS OUT, **THE RAID COMMANDERS DEPARTED SIGNIFICANTLY FROM THE RAID PLAN.** THE PLAN WAS DEPENDENT ON SURPRISE BUT THE COMMANDERS WENT FORWARD WHEN SURPRISE WAS LOST. THE PLAN WAS DEPENDENT UPON THE DAVIDIAN MEN BEING SEPARATED FROM THE WEAPONS IN THE COMPOUND. THE COMMANDERS IGNORED THIS FUNDAMENTAL PRECONDITION, PROCEEDING BEFORE THE MEN WERE SCHEDULED TO BE OUTSIDE AND CONTINUING FORWARD WHEN THERE WAS NO EVIDENCE OF ACTIVITY OUTSIDE THE COMPOUND.

AS THE REVIEW MAKES CLEAR, **THE DECISION TO GO FORWARD WITH THE RAID WAS A MISTAKE, NOT MERELY IN HINDSIGHT, BUT BASED ON WHAT THE DECISIONMAKERS KNEW AT THE TIME.**

THESE ARE JUST SOME OF THE HIGHLIGHTS OF THE TREASURY REPORT. TWO YEARS AFTER THE REPORT WAS ISSUED, THERE MAY WELL BE DETAILS THAT CAN BE ADDED. IT MAY BE POSSIBLE TO EXPAND ON SOME OF THE SUBJECTS THAT COULD NOT BE INCLUDED IN THE 500 PAGES OF REPORT AND EXPERT REPORTS TREASURY PROVIDED. BECAUSE I AM A PERFECTIONIST BY NATURE I WILL BE DISAPPOINTED IF CORRECTIONS THAT SHOULD HAVE BEEN MADE ARE POINTED OUT TO ME. BUT I WILL NOT BE SURPRISED. SINCE WE ISSUED OUR REPORT, THERE WAS A LENGTHY TRIAL PROVIDING INFORMATION THAT DID NOT EXIST WHEN WE DID OUR INVESTIGATION.

WHATEVER FACTUAL ADDITIONS AND MODIFICATIONS COULD IDEALLY BE MADE, HOWEVER, I DO NOT BELIEVE THAT ANY EXAMINATION WILL ALTER OUR FUNDAMENTAL CONCLUSIONS ABOUT THIS TRAGIC EPISODE IN LAW ENFORCEMENT HISTORY: ATF HAD A LEGITIMATE, COMPELLING, AND LAWFUL BASIS FOR INVESTIGATING DAVID KORESH FOR VIOLATION OF FEDERAL FIREARMS LAWS; THE PLANNING EFFORT FOR EXECUTION OF THE WARRANTS WAS SERIOUSLY FLAWED; AND THE RAID SHOULD NOT HAVE BEEN CARRIED OUT UNDER THE CIRCUMSTANCES THAT EXISTED.

WHATEVER MISTAKES WERE MADE BY ATF, HOWEVER, THE REAL VILLAIN AT WACO WAS DAVID KORESH. HE WAS TIPPED OFF 45 MINUTES BEFORE THE RAID BEGAN. WITH THE KNOWLEDGE THAT AGENTS WERE COMING WITH A LAWFUL WARRANT, KORESH ARMED HIS FOLLOWERS WITH ILLEGAL MACHINE GUNS, GRENADES, AND OTHER ASSAULT WEAPONS, AND PLACED A SNIPER ON THE WATER TOWER. THEY THEN LAY IN WAIT. WHEN THE ATF AGENTS ARRIVED, LAW ENFORCEMENT AGENTS WERE AMBUSHED. FOUR ATF AGENTS WERE BRUTALLY KILLED.
OTHER AGENTS WERE MAIMED AS THEY SOUGHT COVER BEHIND CARS AND OTHER BARRIERS. IN THE FACE OF WITHERING FIRE, ATF AGENTS ACTED WITH HONOR AND HEROISM. THROUGHOUT THE FIREFIGHT. THEY DEMONSTRATED EXTRAORDINARY DISCIPLINE, COURAGE, AND HEROISM. LET ME CITE JUST TWO EXAMPLES:

SPECIAL AGENT TIM GABOURIE, A MEDIC, REPEATEDLY EXPOSED HIMSELF TO GUNFIRE TO TREAT SEVERAL WOUNDED AGENTS.

ANOTHER SPECIAL AGENT LEFT A PROTECTED POSITION TO THROW HIS BODY OVER A WOUNDED COLLEAGUE.

THIS ADMINISTRATION HAS SHOWN A FIERCE DEDICATION TO LAW ENFORCEMENT AND TO REDUCING VIOLENT CRIME IN OUR COUNTRY. SECRETARY RUBIN SPEAKS OUT EVERY DAY IN DEFENSE OF ATF'S AGENTS AND ITS PROFOUNDLY IMPORTANT MISSION. TWO DAYS AGO, SECRETARY RUBIN AND I PARTICIPATED IN THE UNVEILING OF THE INSCRIPTIONS ON A PLAQUE AT TREASURY OF THE NAMES OF EIGHT MEMBERS OF TREASURY ENFORCEMENT BUREAUS WHO DIED AT OKLAHOMA CITY IN A BOMBING. EVERY DAY, YOU ARE ON THE FRONT LINES OF THE STRUGGLE IN OUR SOCIETY BETWEEN RIGHT AND WRONG, DIALOGUE AND VIOLENCE, ORDER AND CHAOS. WHEN I TESTIFY AT THE HOUSE HEARINGS ON WACO, I WILL BE STRENGTHENED BY THE KNOWLEDGE OF YOUR STRUGGLE, YOUR DEDICATION, AND THE SACRIFICES YOU AS LAW ENFORCEMENT AGENTS ARE TOO OFTEN CALLED UPON TO MAKE TO PRESERVE THE LIFE AND LIBERTY OF THE CITIZENS OF THIS COUNTRY.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TREASURY DEPUTY SECRETARY STUART EIZENSTAT
HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES

I. Introduction

Mr. Chairman, Mr. LaFalce, and members of the Committee:

I am happy to be here this morning to present the International Counter Money Laundering Act of 2000. This Committee has been at the center of a growing effort to expose the serious problem of money laundering and to take effective steps to combat it. This Committee wrote the House versions of the Bank Secrecy Act, the Annunzio-Wylie Bill, and the Money Laundering Suppression Act of 1994, from which our current enforcement powers are derived. Last fall, after reports that millions of dollars in Russian criminal proceeds had been laundered through an American bank, you held widely publicized hearings which did much to focus public attention on the problem.

The legislation we are proposing today would fill a crucial gap in our authorities, and significantly enhance our ability to take calibrated, targeted action with respect to money laundering threats posed by foreign jurisdictions, institutions, or transactions. In shaping our proposals, we have benefited considerably from a study of legislative proposals that you, Mr. Chairman, and other members of the Committee, have made. We look forward to working with you and Ranking Member LaFalce with the aim of enacting effective legislation to combat international money laundering during this Congress.

Before I get to the details of the legislation, however, I want to point out that it is being proposed in the context of the National Money Laundering Strategy for 2000, which has been developed as required by the Money Laundering and Financial Crimes Strategy Act of 1998. This comprehensive document, which was released yesterday, was based on the continuing review we have conducted since last September of all programs in this area. It reflects considerable progress on a wide range of initiatives since the 1999 Strategy was published. It also announces a series of new initiatives to combat money laundering, in the areas of financial services, international policy and federal, state and local law enforcement. It sets out the specific goals we seek this year, the actions we shall take to achieve them, the time frame in which they will be taken and the specific officials in the Executive Branch that are responsible for ensuring that the goals are met.

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While you have requested that I focus my testimony on legislation dealing with offshore havens and the laundering of the proceeds of corruption, I shall be referring to some other aspects of the Strategy in my presentation, as well. Because they are all part of a whole, I would be most appreciative if the entire 2000 Strategy document could be made a part of the Record.

II. The Need for Additional Discretionary Authorities

The IMF has estimated the amount of money laundering worldwide at between two and five per cent of the world's gross domestic product. Because of its very secretive nature, accurate figures on the extent of money laundering are hard to come by. But even the most conservative estimates project the magnitude of money laundering to be close to $600 billion. Regardless of the exact figures, money laundering is a serious threat to our country because it facilitates drug trafficking, organized crime and international terrorism and because it encourages corruption in foreign governments, undermining U.S. efforts to promote democratic institutions and healthy economic development internationally. Money laundering also poses a threat in and of itself, because it risks undermining the integrity of our financial system. President Clinton underscored this point in announcing Presidential Decision Directive 42 (PDD-42) when he stated that much of the problem posed by international organized crime "stems from the corrosive effect on markets and governments of their large illegal funds."

I want to state unequivocally that safeguarding the integrity of the American financial system and protecting it from abuse are fundamental commitments of this Administration. In reviewing the developments of the last six months, and deciding what new measures may be necessary to act on those commitments, we concluded that the specific legislative tools the government has available to protect the financial system from international money laundering are too limited. On one end of the scale, we have advisories, and on the other end of the scale we have formal economic sanctions under the International Emergency Economic Powers Act ("IEEPA"). There is nothing of practical utility in between.

Treasury Advisories can be effective, because they encourage U.S. financial institutions to pay special attention to transactions involving certain jurisdictions, and to file SARs – or suspicious activity reports. In two cases, that of the Seychelles in 1996 and the country of Antigua and Barbuda last year, advisories also provoked positive action on the part of the targeted governments. But advisories do not impose specific requirements, as an order or regulation would, and thus they are not sufficient to address the complexity of the international money laundering threat.

At the other end of the scale, blocking orders under the IEEPA require a Presidential finding of a national security emergency, and operate to suspend financial and trade relations with the offending targets. Such orders can affect legitimate as well as illegitimate commerce. We have used IEEPA orders effectively against drug trafficking and terrorist organizations, but the tool is not particularly well suited to dealing with under-regulated foreign financial institutions.

III. Proposed Legislation and Implementation

New Discretionary Authorities. Under our proposed legislation, if the United States government believes that a certain foreign jurisdiction, a specific foreign financial institution, or a type of international transaction, poses a primary money laundering threat to this country, we will be able to take a far wider range of actions. The Secretary of the Treasury, after consultation with the Secretary of State, the Attorney General, and the Chairman of the Federal Reserve Board, could do one or more of the following:

1. Require banks or other financial institutions to keep records of transactions and make them available to the government on request. These records could be kept in the aggregate or by individual transaction. Such records could prove invaluable to law enforcement and could help us better understand the specific money laundering mechanisms at work. As a corollary benefit, because such a requirement would cause U.S. institutions to increase the level of scrutiny they apply to transactions involving targeted jurisdictions or institutions, it could result in pressure on the offending foreign jurisdictions to improve their laws.

2. Require financial institutions to ascertain the foreign beneficial owners of accounts in the U.S. where they are different from the owners of record. This requirement would help us dig through the layers of obfuscation, and often plain deceit, that prevent us from knowing who really holds money in U.S. banks.

3. Require identification of those who are allowed to use a bank's correspondent accounts, as well as its so-called "payable through" accounts, which allow customers of a foreign bank to conduct banking operations through a U.S. bank just as if they were its own customers. These technical financial mechanisms, though perfectly legal and serving many legitimate purposes, are also abused by foreign money launderers who seek to clean their dirty money through our financial institutions. When necessary, we need to be able to find out who really benefits from these accounts, and by application of transparency, discourage abusive practices.

4. Finally, where necessary in extreme cases, the Secretary would have the authority to impose conditions upon, or prohibit outright, the opening or maintaining of correspondent or payable-through accounts. Sometimes, when the threat is really serious, we need to be able to say enough is enough and cut foreign money launderers off from using U.S. financial institutions.

As you can see, our proposed legislation is designed to be graduated, targeted and discretionary -- graduated so that the Secretary can narrowly tailor the action he takes in a manner proportional to the threat he is seeking to counteract; targeted, so we can focus our response on the precise threat we confront; and discretionary, so we can integrate these tools into the bilateral and multilateral diplomatic efforts we are engaged in to persuade offending jurisdictions to change their practices. In the mean time, the information generated by these measures will enable our enforcement and regulatory personnel more effectively to understand the way these mechanisms are used and how money passes through the jurisdictions named. Hopefully, the information will also enable us to conduct more effective enforcement efforts against abuses stemming from those jurisdictions, transactions, or institutions.

The extent to which we should rely on multilateral action has been a matter of some debate over the past few months. Some have said that all our actions should be taken in concert with other countries, so that our institutions are not put at any possible competitive disadvantage. Others would mandate our government to apply certain stated measures automatically with respect to those who pose a threat. We have learned from our experience with economic sanctions, that on the one hand multilateral action is generally more effective than unilateral steps. And there may be times when the desirability of specific countermeasures is trumped by overriding national interest considerations.

On the other hand, if we believe there is a genuine threat to our own institutions, we shall be prepared use these powers unilaterally even if other nations are unprepared to join us. There may well be instances where multilateral or even bilateral action is not feasible and in which the risk of corrupt penetration of our banking system is so high we that must act ourselves. In making these choices, discretionary powers serve a very useful purpose.

<u>Findings and Implementation Process</u>. I would also like to outline the process we intend to use to designate foreign jurisdictions as money laundering threats. First, working with the State Department, we shall improve the processes we use to gather data about other countries' laws, regulations and practices that either combat or facilitate money laundering. We will also look at experiences from U.S. law enforcement. With this information, we shall assess the scope and type of money laundering problems we face from each jurisdiction. These assessments will be made on an annual basis.

Second, we would seek to determine whether each of the problem jurisdictions is primarily a <u>source</u> of criminal funds, or primarily a <u>haven</u> for dirty money. "Source" countries often face continuing problems of political will and capacity in dealing with what are, at root, domestic problems of crime and corruption. "Havens" tend to be characterized by under-regulated offshore financial services and excessive bank secrecy. Political will is relevant in both cases; but the distinction is crucial, in terms of the application of specific countermeasures. Training and technical assistance might be more appropriate than targeted regulatory action, for example, with respect to "source" jurisdictions.

Third, for each source country and money laundering haven, we shall ask if it has an adequate anti-money laundering regime, based on the global standards established by the Financial Action Task Force on Money Laundering ("FATF"). If not, we shall then ask whether it is improving its laws and practices. If not, we shall examine if this failure is primarily due to a lack of resources, or instead an absence of political will. It may in fact reflect a clear intention of providing no-questions-asked banking to the international underworld. In addition, our analysis will also take into account the interplay between tax evasion—a serious crime in its own right—and money laundering, since the same organizations in the same havens are often used for both activities, often by the same criminals.

The answers to these questions will go a long way in determining which countermeasure will be very influential in the determination whether a jurisdiction is designated a primary money laundering concern so that the Secretary may then impose one of the new authorities. They will also inform the decision of which counter-measures to apply in each specific case.

These factors are set forth in the 2000 National Money Laundering Strategy, in order to send a clear signal to the public, to financial institutions, and to the international community, about our concerns and our intentions. We hope and expect that many institutions and foreign governments will not wait for us to announce specific steps before they take appropriate preventive steps.

Multilateral Action. As we contemplate specific countermeasures with respect to specific jurisdictions, we shall be guided by, and actively participate in, the work of international organizations in this field. In June, the FATF is expected to publish the names of jurisdictions that substantially fail to meet its criteria for cooperation in resisting money laundering. The Financial Stability Forum, created by the G7 major industrial nations, is also reviewing the role of off-shore financial centers in the international system and encouraging them to put sound international standards into force. We shall help both organizations make their evaluations and take appropriate and coordinated countermeasures toward those jurisdictions, offshore and on shore, that fail their tests.

We shall also work with our partners in the OECD to publish its list of tax havens within the next few months. Although tax evasion and money laundering are separate crimes, the same havens are used for both, often by the same people, because the features that make a jurisdiction attractive for one, such as excessive bank secrecy and lack of transparency, make it attractive for the other.

We also can and will promote the adoption of appropriate supervisory actions in response to specified jurisdictions that fail to make progress in implementing effective international standards relating to money laundering. In multilateral forums, the banking agencies will support the development and issuance of international supervisory guidance on the reputational risks associated with money laundering and the sound practices that should be implemented to address these risks.

IV. Guidance to U.S. Financial Institutions

More broadly, Treasury and the financial regulatory agencies intend also to issue, before the end of the year, guidance to U.S. financial institutions that will assist them in identifying, on their own, those customers and transactions that pose an especially high risk of involvement with money laundering and other financial crimes. We would then expect the institutions to keep a watchful eye on these accounts.

Let me make it clear that our guidance will differ from the "know your customer" proposals made last year. First, we do not intend to issue formal regulations, and the guidance will be tailored so as to require special scrutiny only with respect to high risk accounts. Institutions already conduct due diligence with respect to a wide range of regulatory requirements; we intend to assist them in making determinations about what specific steps they need to take to comply with their existing obligation to file Suspicious Activity Reports. This obligation explicitly requires banks to be aware of transactions that are suspicious because of their size, their source, or because they are not the kind of transactions in which their customers would normally be expected to engage.

Banks should be able to identify high-risk customers – including certain so-called "private banking" customers -- without unduly interfering with normal business activities or invading the privacy of any customer. Moreover, these efforts to identify certain high-risk customers will take place in the context of the Administration's commitment, expressed by the President in the State of the Union, to propose new legislation this year to safeguard citizens' financial privacy. To assure this, we will, in preparing the details of our guidance, consult widely with all segments of the industry, with privacy advocates and with other affected groups. I personally will be heading up this initiative.

In this connection, special attention should be paid to corrupt public officials who try to launder money and other assets they have stolen from their own people. We will continue to seek legislation we first called for last year to make public corruption by a foreign a predicate offense under the anti money laundering laws. This change would have a significant effect, both in ensuring that our own financial institutions applied enhanced scrutiny to activity in accounts they manage on behalf of foreign officials, and in providing our prosecutors tools necessary to bring to justice foreign officials who have looted their countries. The change would also provide U.S. prosecutors with tools to assist investigations of foreign governments to bring such "kleptocrats" to justice. We will also continue to urge other countries to make public corruption a predicate offense, in order to implement the international treaties and standards that have been negotiated and will be in the future.

V. Other National Money Laundering Strategy Initiatives

I would like now to highlight a few of the other activities covered in our 2000 Strategy Report which may be of special interest to members of the Committee.

HIFCA Designations. We announced yesterday that the New York / Northern New Jersey region, the city of Los Angeles and the city of San Juan have been designated as High Risk Money Laundering and Financial Crime areas. In addition, one money laundering system -- the movement (and often smuggling) of cash in bulk across the Southwest border -- has also received this designation. These are the first designations under the 1998 Strategy Act. In each, a money laundering action team will be created or identified and will proceed this year to launch concentrated enforcement activities that will coordinate the efforts of federal, state and local law enforcement. State and local authorities operating within each HIFCA will also be eligible for grants under the new Financial Crime Free Communities Support program ("C-FIC").

Suspicious Activity Reporting for MSBs. Yesterday, we issued final regulations requiring filing of suspicious activities reports by money services businesses that transfer funds or deal in money orders or traveler's checks. They were developed after significant consultations with representatives of the industry, state regulators and law enforcement officials. The regulations will significantly expand the ability of law enforcement to focus its efforts on money laundering activity occurring through non-bank financial institutions. It will help level the playing field in SAR reporting for institutions providing financial services to the public.

This summer, we hope to issue our final rules for casinos and card clubs. We have also been working with the SEC, and we expect to publish proposed rules covering SAR reporting by brokers and dealers in securities later this year. The securities industry is generally not used in the "placement" stage of money laundering because of near-universal policies against currency transactions. It also requires special rules and systems to ensure conformity with existing examination and enforcement programs of securities regulators. Nevertheless, the services and products the industry provides, including the efficient transfer of funds between accounts and to other financial institutions, the liquidity of securities, and the ability to conduct international transactions provide opportunities for money launderers to obscure and move illicit funds.

Gatekeepers. We are aggressively pursuing programs aimed at the lawyers, accountants and auditors who function as "gatekeepers" to the financial system. While legal rules properly insulate professional consultations from overly broad scrutiny and create a zone of safety within which professional can advise their clients, those rules should not create a cover for criminal conduct. We have published materials for the accounting profession that highlight money laundering risks in various industries. We are considering how existing accounting standards, on such subjects as illegal acts by clients, internal controls and fraud, can incorporate money laundering safeguards. By the end of this year, after outreach to a range of professional associations, we expect to have developed recommendations on ways to impress upon gatekeepers their professional responsibilities in this regard.

In order to ensure that we are able to fully implement this year's Strategy, we have asked for a $15 million, centralized account in our 2001 budget. These funds, which are in addition to our normal budget request, will be used to provide grants to state and local enforcement agencies, and to support a number of key Strategy initiatives.

VI. Conclusion

There are those who believe that in the new world of electronic commerce, where funds travel so fast and so easily, law enforcement cannot possibly keep up with criminals and corrupt officials and those who move their money for them. I strongly disagree. We have the same information technology they have. We are more dedicated than they are. We will work to implement the authority we have and the new laws we seek, and we will seek the help of other nations that realize the threat money laundering presents to their own economic progress, and the stability of their own societies. We shall work harder and with more resourcefulness than our adversaries to track their activities, eliminate their havens, bring them to justice and eliminate the scourge of money laundering from our societies.

Thank you, Mr. Chairman, for inviting me to testify before this Committee today. I would be happy to answer questions from you and the other members of the Committee.

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DEPARTMENT OF THE TREASURY
DEPARTMENT OF JUSTICE

For Immediate Release
March 8, 2000

Contact: Public Affairs
(202) 622-2960

TREASURY AND JUSTICE ISSUE 2000 MONEY LAUNDERING STRATEGY

The Departments of Treasury and Justice unveiled the Administration's National Money Laundering Strategy for 2000 today, laying down a comprehensive and detailed plan for combating money laundering.

The Strategy calls for a comprehensive approach to combat domestic and international money laundering. It designates the first four High Intensity Financial Crime Areas for the United States - New York/New Jersey, Los Angeles, San Juan and cash smuggling across the Southwest Border. It announces a final rule requiring money services businesses to report suspicious transactions and the intention to expand this coverage later to include casinos and securities broker/dealers. It sets out the Administration's plan to issue guidance to financial institutions to apply enhanced scrutiny to certain high risk accounts. And, it calls for the passage of key Administration legislation to deal with the problem of international money laundering and provide law enforcement better anti-money laundering tools.

"Money laundering is a growing threat to the United States," said Deputy Treasury Secretary Stuart Eizenstat. "It undermines confidence in the integrity of our financial systems, facilitates crime and corruption, and allows criminals to savor the rewards of their illegal actions."

This 2000 Strategy builds upon the foundation of the original National Money Laundering Strategy released last September. It reports on the conclusions of the various studies and initiatives begun last year and underscores accountability by assigning lead officials and responsible offices for each of its various action items.

"The 2000 Strategy sets out a highly ambitious and far-reaching agenda for the government's efforts to fight money laundering," said Deputy Attorney General Eric Holder. "Targeting the first four High Intensity Financial Crime Areas in the United States, the anti-money laundering grant program to state and local law enforcement, and the Strategy's legislative proposals will significantly raise the stakes for those who would profit from crime and try to erase the taint of their criminality."

The Strategy represents the second of five annual reports called for by the 1998 Money Laundering and Financial Crimes Strategy Act. Implementation is being led by the Departments of Treasury and Justice and involves the efforts of a wide cross-section of government agencies. The Strategy is available on the Treasury website at www.treas.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 8, 2000
LS-447

STATEMENT BY
TREASURY DEPUTY SECRETARY STUART EIZENSTAT
ON THE NATIONAL MONEY LAUNDERING STRATEGY FOR 2000

Thank you all for coming, and a special thanks to Rep. LaFalce, Rep. Velazquez, and Rep. Roukema for joining us here today. I also want to thank many of their colleagues who could not be here but who share their focus on this important issue, including Senators Grassley, Schumer, Sarbanes, Coverdell and Kerry, Chairman Leach and Representatives Waters, Vento, King and McCollum.

Money laundering, at home and abroad, is a growing threat to the United States, both because it facilitates crime and because it taints our financial system. Deputy Attorney General Holder and I, as co-chairs of the Administration's Money Laundering Steering Committee, have worked to bring the agencies of government together to combat this threat through an integrated, comprehensive approach. The result of these efforts is the *National Money Laundering Strategy for 2000*, which we unveil here today.

The *2000 Strategy* comprises dozens of new initiatives, including the first designations of high intensity money laundering zones that will be the target of intensive law enforcement activity; a new grant program for state and local law enforcement; new legislative proposals aimed at foreign countries and institutions that pose serious money laundering risks; new rules requiring suspicious activity reporting from additional sectors of the financial industry; and a process for developing new guidance for enhanced scrutiny of high-risk accounts. The President's budget proposal this year requests an additional $15 million in a new centralized account to implement key Treasury items in the

2000 Strategy.

Let me begin today by outlining our key international initiative. Last week Secretary Summers announced that we were proposing new international counter-money laundering legislation. I am very pleased that Chairman Leach and Ranking Member LaFalce of the House Banking Committee have indicated their willingness to introduce this legislation, and I look forward to testifying before their committee on this issue tomorrow morning.

This legislation is aimed at providing the United States with new powers to act against foreign countries, financial institutions, or types of international transaction that are deemed to pose a money laundering threat. Right now, we are limited to the

relatively mild step of issuing bank advisories or the full-scale treatment of imposing economic sanctions. This bill would give us the discretion to:

- Require financial institutions to record and report on transactions with problem countries or institutions.
- Require financial institutions to ascertain the foreign beneficial owners of accounts in the U.S.
- Require identification of those who use a bank's correspondent and "payable through" accounts, which allow foreign bank customers to conduct banking operations through a U.S. bank.
- And finally, where necessary, prohibit U.S. financial institutions from opening or maintaining correspondent accounts altogether.

The new legislation is designed to be graduated, discretionary and targetable, so we can most effectively combat money laundering without impairing legitimate business.

The Strategy also outlines the process we will use to designate foreign jurisdictions as money laundering threats. In doing this, we will consider the interplay between tax evasion and money laundering, since tax havens and money laundering havens share many of the same attributes.

At the same time, we will continue our work within the multilateral Financial Action Task Force to develop a list of the world's worst money laundering havens and in the OECD to develop a list of the world's worst tax havens. Both these lists should be issued in June.

The Strategy also commits us to develop guidance for U.S. financial institutions to apply enhanced scrutiny to certain high-risk accounts. U.S. financial institutions are the first line of defense against money laundering, and it is important for us to provide the guidance they need to do the job right. At the same time, we are keenly aware of the need both to protect Americans' right to privacy and to avoid imposing unnecessary burdens on banks. Thus, we are talking about guidance, not regulation; we are focussing only on high-risk accounts, not ordinary accounts; and we are committed to moving forward only after intensive consultations with all interested parties, including privacy advocates.

Let me at this point turn things over to Deputy Attorney General Eric Holder, who will then be followed by Jim Sloan and our distinguished guests from the Congress.

DEPARTMENT OF THE TREASURY

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STATEMENT OF UNDER SECRETARY FOR ENFORCEMENT JAMES E. JOHNSON SUBCOMMITTEE ON TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT COMMITTEE ON APPROPRIATIONS

Mr. Chairman, Congressman Hoyer, and Members of the Subcommittee, I am pleased to be here today on behalf of Secretary Summers to introduce the fiscal year 2001 budget request for the Treasury Department's law enforcement bureaus and offices.

At the outset of my testimony, I want to thank the Members of this Subcommittee for their strong and continuing support for Treasury law enforcement. I welcome this opportunity to discuss with you the Treasury Department's accomplishments and plans in the important law enforcement mission areas for which we are responsible. I would like to focus on what we regard as the most significant challenges we are facing and how Treasury law enforcement is responding to them, covering our activities over the last year, our plans for the remainder of the current fiscal year, and our budget proposals for fiscal year 2001.

While we continue to face fiscal challenges, the fiscal year 2000 appropriation provides Treasury bureaus with strong support for carrying forward increasingly complex and challenging missions. We appreciate the support you showed for Treasury's enforcement programs in the appropriations for FY 2000. I am pleased to report that the President's fiscal year 2001 budget proposes a $4.2 billion program level for Treasury enforcement. If enacted, this budget will provide the ATF with 600 more full-time equivalent agents, inspectors, and other staff to enhance our firearms enforcement efforts. This budget will provide the U.S. Secret Service with 400 additional full-time equivalent agents to enable the United States Secret Service to carry out its dual mission of protection and investigation. The President's budget also provides the U.S. Customs Service with 273 additional full-time equivalent positions, including 120 for agents to conduct drug smuggling and money laundering investigations. Overall, the President's budget proposal would add more than 1,400 full-time equivalent positions to Treasury enforcement. It represents the largest increase in Treasury law enforcement staffing in over a decade.

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DEPARTMENTAL OVERSIGHT

Funding is not the only element of strong law enforcement. It is also important that law enforcement agencies have clear policies and a means for setting priorities. We at the Treasury Department seek to provide support, oversight, and policy guidance to enhance the performance of our enforcement bureaus and to provide strong leadership in the enforcement community.

Over the past year, we have continued to focus on accomplishing the Department's enforcement goals and our bureaus' individual goals. We have relied on the expertise of our professional staff and also on the talent and experience of bureau personnel to work on challenging issues.

Hiring: Our need to recruit the best qualified and diverse workforce will gain even greater salience if the proposed budget is enacted. We have undertaken two key initiatives in this area.

(1) Schedule B - Late last year, in response to our appeal, the Office of Personnel Management (OPM) granted the ATF and the Customs Service Schedule B excepted hiring authority. This authority is somewhat similar to that currently used by the Secret Service, the Federal Bureau of Investigation, and the Drug Enforcement Administration for criminal investigator recruitment and selection. Some of the benefits of this authority are greater flexibility in targeting recruitment to meet skill requirements and diversity goals, the capability to focus on the large number of intangible skill sets and personal characteristics required, and the ability to find and hire quickly the best candidates for their jobs.

(2) Diversity conference - Last fall, the Office of Enforcement, joined by Management, discussed with each of the bureaus their recruiting and hiring practices, focusing on diversity. We learned that each of the bureaus' recruitment programs had many commendable aspects, but concluded that all could benefit from hearing about the experiences of the other bureaus. Since that time, we have brought together the Equal Employment Opportunity managers from across the bureaus for a series of meetings which will culminate in a diversity conference, to be held this spring, which will focus on best practices to recruit and hire a diverse workforce. The conference will also have a training module focusing on best practices for ensuring that, once recruited, minority employees have fair opportunities to advance through the organization over the course of their careers.

Retention: Retention of employees who have years of experience and in whom we have invested long hours of training is critical. In that regard, the Department has made progress toward meeting the challenges of improving our capacity to develop and retain high-caliber employees. Specifically, we have worked to address workforce retention and workload balancing issues with the Secret Service. My office established an Interagency Working Group on U.S. Secret Service Workforce Retention and Workload Balancing, which included representatives from Enforcement, Treasury's Office of Management, OMB, and the Secret Service. The analysis revealed that Secret Service agents have experienced an extreme increase in the amount of travel and working hours in the last few years due to the increase in the number of protectees and the enhanced level of protection necessary. In fiscal year 2001, the Secret Service will experience a further workload increase when the change of administrations occurs. To begin to alleviate these problems, Treasury's fiscal year 2001 budget proposal includes a significant increase in staffing for the Secret Service.

Senior Executive Service (SES) allocations: As the Subcommittee is aware, Treasury bureaus have had a critical need for SES positions. Last month, as a result of decisions within the OPM, we allocated 20 additional SES positions to our enforcement bureaus. The lion's share of those positions went to the Customs Service, which, as you know, still faces significant challenges in this area. This is an issue that the Department will continue to work with our bureaus to address.

Demonstration pay project: In January, ATF implemented its pay demonstration pilot for scientific and technical positions. The demonstration project -- developed by a team comprised of personnel from the Office of Enforcement, the Office of Management and the ATF -- emphasizes flexibility in approaches to recruitment, and establishes a pay-for-performance system designed to provide incentives to compete with state and local government and the private sector. To date, 205 out of a possible 260 ATF employees have chosen to participate in the program, and the period for choosing to participate has not yet closed. We thank the Subcommittee for this authority as we look forward to making this capacity permanent.

Retirement: Schedule B authority, increasing SES allocations, and the pay demonstration project are particularly critical in light of the Department's report on retirement and the proposed budget. At the direction of this Subcommittee, the Department, through a contract with the Office of Personnel Management, analyzed the large numbers of criminal investigator retirements that have occurred and will likely continue to occur in the next several fiscal years. Submitted to Congress last fall, the report included the findings and the implications for workforce planning, as well as related information about the recruiting market and selection problems that will affect Treasury's ability to hire criminal investigators and maintain staffing levels. Specifically, the report included an analysis of retirement and attrition patterns from the last five years, and the age and years of service of Treasury's criminal investigators. Based on this analysis, it was estimated that the Department would need approximately 2,662 new hires for its criminal investigator workforce between fiscal years 1998 and 2003 in order to maintain Treasury's 1998 fiscal year-end strength of 10,261 criminal investigators. This means that, before we can take advantage of the increases contemplated in the President's budget we must hire an average of approximately 600 additional investigators each year for fiscal years 1999 through 2003.

Training: Another aspect of our goal to recruit and retain a high quality workforce is assuring that Treasury law enforcement officers receive the highest quality of training available. The Federal Law Enforcement Training Center (FLETC) is key to this goal. The expansion in recent years in the number of employees hired by the 73 law enforcement agencies that participate in FLETC has stressed FLETC's ability to meet all the requests for training. Although FLETC continues to be able to provide all the basic training needed, currently by using a temporary facility in Charleston, South Carolina, increases in bureau hiring require coordinated increases in funding for FLETC.

To address some of the strain from increased demand for training, we have also been exploring ways to use the latest technology to provide alternative means of delivering training courses. Recognizing that the FLETC facilities cannot accommodate all of the requests for training that are likely to arise in the future, we are searching for ways to use the Internet and video conferencing to provide needed training.

Likewise, the need for advanced training to keep law enforcement officers abreast of the latest trends in fighting crime is critical. We have been working closely with FLETC to explore ways to enhance training to address high-tech crime. One example of this approach is Computer Investigative Specialist (CIS) 2000 training. This course, which includes agents from the Secret Service, Customs, the Internal Revenue Service Criminal Investigations Division, and ATF, uses state-of-the-art training and equipment to teach agents how to deal with the latest computer and encryption technology that they may encounter in conducting an investigation. The CIS 2000 agents have achieved many notable successes in their investigations of counterfeiting, money laundering and various types of fraud as a result of this course.

Through our Implementation Working Group, the Office of Enforcement also continues to monitor FLETC's progress in implementing organizational assessments of FLETC that my predecessor had done. Great strides have been made in addressing some of the problems that had developed at FLETC, and we hope to be able to conclude the Implementation Working Group's work later this year. The next meeting of the Committee will be held in Artesia, New Mexico this spring.

Our budget request for fiscal year 2001 contains important initiatives for the Federal Law Enforcement Training Center (FLETC). We are seeking $6,969,000 for FLETC's mandatory workload. This funding will be used to address entry level training for additional agents and inspectors for ATF and additional agents for the Secret Service. This is the first major hiring initiative for Treasury law enforcement bureaus in many years. FLETC is a key component of Treasury's effort to meet this build-up. Funding also is included for new construction and renovation of older existing structures at FLETC to continue the planned upgrade of facilities crucial to the training of the vast majority of the federal government's law enforcement personnel.

Office of Professional Responsibility: One of the key functions of the Office of the Under Secretary (Enforcement), is to provide oversight to the Treasury law enforcement bureaus. Over the past few years, our efforts have been enhanced owing to the establishment of the Office of Professional Responsibility (OPR), which Congress directed. OPR completed a number of significant projects in 1999 and 2000, including the review of Customs' Office of Internal Affairs, ICDE funding needs, operations at ATF's Tracing Center, and the aforementioned Secret Service workforce review. A number of significant reviews are also underway, such as a prioritization of international training conducted by the bureaus, overseeing a year-long gathering of statistics on encounters with law enforcement to ensure ethnic and minority groups are not being unfairly targeted, and a review of ATF's role in the National Instant Check System (NICS).

MONEY LAUNDERING AND FINANCIAL CRIMES

Preventing abuse of our financial institutions to conceal tax evasion and the movement of money generated by criminal activities is a high priority. It is a problem that cuts across a broad spectrum of criminal activities, from violent crimes such as narcotics trafficking to white-collar crimes such as credit card fraud. This is a matter of great concern for the Treasury Department in our role as guardian of the integrity of the U.S. financial system and its financial institutions.

Current Activities and Priorities for Fiscal Year 2001

Treasury's law enforcement bureaus and offices play a key role in our fight against financial crime. The Customs Service, the Secret Service, IRS-CID, and ATF all investigate money laundering stemming from the specified unlawful activities within their jurisdictions. Additionally, the Financial Crimes Enforcement Network (FinCEN) is charged with administering the Bank Secrecy Act, which prescribes transaction reporting and record-keeping requirements for financial institutions designed to insulate those institutions from money laundering, and to provide a paper trail for investigators. Just last August, FinCEN issued a final rule requiring all money services businesses to register with Treasury. In coming weeks, FinCEN will issue the final rule requiring a subset of these businesses – money remitters and money order and traveler's check issuers, sellers and redeemers – to file suspicious activity reports. FinCEN serves as the central point for collection and analysis of Bank Secrecy Act data and provides case support to law enforcement investigations.

Over the last year we have undertaken or strengthened several initiatives aimed at addressing systemic vulnerabilities in our financial system.

National Money Laundering Strategy: In September 1999, in consultation with the Department of Justice, the Department of State, the federal financial supervisory agencies, and state and local law enforcement, Treasury published the first National Money Laundering Strategy. The Strategy for the first time articulates a coherent, broad-based attack against the pernicious effects of criminals hiding the proceeds of their crimes.

Since the 1999 Strategy was released, a tremendous amount of progress has been made toward implementing it. Over a dozen interagency groups were formed to ensure progress on priority action items. Less than six months after the release of the 1999 Strategy, Treasury and Justice will in early March release the 2000 Strategy. The 2000 Strategy will announce a number of high intensity financial crime areas (HIFCAs), and will describe the results of a number of policy reviews. Substantial progress occurred in a number of areas, including a review of whether formal guidance should be given to financial institutions about how to meet their obligations to report suspicious transactions, the aforementioned issuance of suspicious activity reporting rules for so-called money services businesses, a review of rules and practices currently in place to protect the privacy of U.S. persons by limiting access and controlling the use of information collected pursuant to the Bank Secrecy Act, developing a formal process to administer a grant program to support state and local efforts to combat money laundering, and encouraging countries around the world to join in the global fight against this problem.

Particular progress was made this year in the multi-faceted attack on the Black Market Peso Exchange (BMPE) system of money laundering. The Treasury-led BMPE working group helped to produce improvements in investigative techniques used by law enforcement, awareness among the business community, and a multilateral working group of experts from affected governments throughout the hemisphere. In addition, Treasury continued its prominent role in the Financial Action Task Force (FATF), which is defining "non-cooperative jurisdictions" in order to identify and ultimately orchestrate counter-measures against them. The Department also issued a formal advisory encouraging the Government of Antigua and Barbuda to take constructive steps to address serious vulnerabilities in its system of anti-money laundering control.

In the future, we expect to be in a position to meet the statutory deadline of February 1 for the annual strategy.

Identity Theft Summit: Each year American businesses and citizens lose more that $3 billion to credit card fraud. One of the key means by which this fraud occurs is identity theft. On May 4, 1999, President Clinton announced that the Treasury Department would convene a national summit on the subject of identity theft and work with the private sector to help prevent the occurrence of this crime. This summit is part of a larger identity theft initiative that includes case referral, a public education partnership, and sentencing enhancements, which will implement the new legislation that provides the U.S. Secret Service with authority to investigate identity theft violations. The summit, scheduled for March 15 and 16, 2000, will engage 250 senior executives from the public and private sectors in a substantive dialogue that we expect will lead to better communication and cooperation on identity theft crimes.

Financial Fraud: During 1999 the U.S. Secret Service made almost 4,500 arrests for financial crime offenses. The Secret Service also coordinated 28 task forces involving 54 law enforcement agencies throughout the United States. These task forces focused primarily on fraud schemes intended to victimize individuals, banks, credit card issuers, and other financial institutions.

In fiscal year 2001, preventing abuse of our financial system to facilitate criminal activities remains a high priority for Treasury enforcement agencies. Our budget request for fiscal year 2001 supports Treasury's role in implementing that strategy. We are emphasizing (i) technical assistance to financial institutions as well as law enforcement agencies; (ii) enhanced collection and analysis of data that can help us to identify and pinpoint financial crimes; (iii) interdiction of outbound currency; (iv) giving our bureaus the resources to allow them to undertake lengthy investigations of complex illegal transactions; (v) specialized training for our agents; and (vi) partnership grants to state and local governments to leverage the resources they can bring to bear on this problem.

FIREARMS VIOLENCE

Over the last two years few events have so caught the attention of the American public, and indeed the worldwide audience, as the spate of senseless shootings in public places. In our schools, in our places of work, and on our streets, criminal violence and the easy availability of firearms to criminals have wrought havoc and caused Americans in all walks of life to feel unsafe. Over the last year, both the President and the Congress have responded to these concerns. Treasury, specifically the ATF, with the support of this Committee, has been at the center of this comprehensive response.

The most important development of the past year has been our work with the Department of Justice to provide support for burgeoning collaborative federal, state, and local intensive firearms crime investigation and prosecution plans throughout the country. Between 1993 and 1998, violent crime with firearms fell 37 percent and gun-related homicides declined 36 percent. Firearms prosecutions are increasing. Department of Justice information shows that in 1999 federal prosecutors brought 5,500 firearms cases in the federal courts, 700 more cases than in 1992. Looking ahead, our primary focus continues to be on building firearms enforcement capacity, and providing the tools that enable federal, state, and local law enforcement to use their resources in a strategic manner that will have the most impact on armed crime reduction.

Current Activities and Priorities for Fiscal Year 2001

Integrated Violence Reduction Strategy: Last fiscal year, the Treasury Department and the Justice Department were directed by the President to provide an integrated violence reduction strategy to further reduce gun violence. The joint Treasury-Justice strategy will be released soon. It will call for more enforcement resources to combat armed violence as requested of Congress in the Administration's fiscal year 2001 budget request and ATF's fiscal year 2001 appropriations request, in order to maximize the impact of current laws on the reduction of gun violence. The strategy will also highlight legislative proposals discussed by the President to further reduce youth violence and improve public safety. Enforcement resources requested will be used to support and enforce current statutory authorities.

The strategy proposes funding for 300 new full time equivalent agent positions, 200 full time equivalent inspector positions and 100 other full time equivalent personnel for ATF to support local intensive prosecution projects like Project Ceasefire in Boston and Project Exile in Richmond. These local strategic projects encompass investigations of armed criminals and illegal traffickers, and inspections of firearms dealers that are the sources of firearms to criminals, as well as those illegally attempting to acquire or illegally possessing firearms.

Consistent with our budget request, the strategy will also call for an expanded effort to support state and local law enforcement agency capability to trace recovered firearms to determine their illegal sources and to speed up trace responses to state and local law enforcement agencies ($9.9 million), and to establish ballistics imaging capability to identify shooters and traffickers where the firearm itself is not recovered $23.4 million. Our view is that all state and local enforcement agencies with a gun crime problem should have these capabilities, and be able to draw on ATF's information and analysis, expertise, and investigative experience. Expanded and shared information about the illegal gun market will enable more strategic use of federal, state, and local investigative and criminal justice resources.

Commerce in Firearms in the United States: Treasury strongly supports ATF's efforts to base its firearms inspection program on indicators of criminal access to firearms. In February, ATF released the first annual report on Commerce in Firearms in the United States, providing an array of information concerning the firearms industry and ATF's regulatory inspection program. The 2000 report informs Congress, law enforcement officials, and the public on the activities of ATF inspectors, and how ATF regulatory resources are focused in order to maximize their effectiveness in reducing firearms trafficking and abuse. The report shows the types of activities and inspection strategy for which we are requesting 300 new inspectors and other personnel for ATF. A fair and focused inspection program will reduce the need for more costly criminal investigations and benefits public safety.

Youth Crime Gun Interdiction Initiative (YCGII): There is a continuing need to focus attention and resources specifically on reducing youth violence and preventing the illegal supply of firearms to juveniles and youth. A fundamental need is for investigators to find out how guns are illegally acquired by young people. In the past year, ATF and local police committed to establishing comprehensive crime gun tracing and youth gun violence reduction efforts with law enforcement agencies in eleven new cities, bringing the total number of cities participating in YCGII to 38 in its third year. In February 1999, Treasury and ATF issued the second year Youth Crime Gun Interdiction Initiative Trace Analysis report, analyzing over 76,000 crime gun traces from 27 cities. The report provides local law enforcement agencies with information about the number of firearms recovered in their jurisdictions, top crime guns in each city, and their geographic sources, in order to assist local law enforcement agencies with development of effective law enforcement strategies against youth violence. ATF also released the YCGII Performance Report, a survey of over 640 trafficking investigations nationwide involving juveniles and youth engaged in gun crime, demonstrating ATF's enforcement efforts to stop youth and juvenile access to guns through straw purchasers and other illegal channels. We endorse ATF's plan to expand YCGII to 75 cities, and propose to add 12 new cities in fiscal year 2001 to work toward this goal by bringing the fiscal year 2001 participating cities to 50.

Gun Show Report: In February 1999, Treasury in coordination with the Department of Justice, released a report on gun shows, Gun Shows: Brady Checks and Crime Gun Traces. The report was prepared in response to a directive from the President that the Secretary of the Treasury and the Attorney General provide him with recommendations to address the gun show loophole, that is, the sale or exchange of firearms at gun shows without background checks or tracing records for those acquiring the firearm. The report led to legislation proposing that all transactions at gun shows include background checks and tracing records to prevent access to guns by prohibited persons and to allow law enforcement officials to trace firearms when they are recovered by law enforcement officials. Both licensed and unlicensed gun sellers at gun shows are sources of guns to criminals and other prohibited persons; where there is evidence of criminal activity, enforcement attention is required.

COUNTER-NARCOTICS

Reducing the supply of dangerous drugs entering the United States continues to be another of our high priorities. It is also our most difficult challenge. We are confronted by well-financed criminal organizations that adapt quickly to every advance we make in the detection of illegal drugs. Moreover, interdiction is only one piece of a comprehensive drug control strategy that includes eradication of drug production abroad, sanctions against drug kingpins, investigation and disruption of trafficking activities within the United States, treatment of drug users, and, as mentioned above, combating money launderers.

Current Activities and Priorities for Fiscal Year 2001

Border Coordination Initiative – We continue to work to strengthen our coordination with other border enforcement agencies to assure that taxpayers get the most effective use of federal resources available for drug interdiction. In September 1998, Treasury and Justice initiated the Border Coordination Initiative (BCI), an innovative system for controlling the Southwest Border. BCI is a strategic plan for Customs and the INS to maintain a seamless, comprehensive, integrated border management system that increases interdiction of illegal drugs, illegal aliens, and other contraband while simultaneously facilitating legal migration and trade. Customs and the INS have set new standards for innovation, interagency cooperation, and operational effectiveness, with locally developed innovations leading to improved coordination and more efficient border operations. As a result of BCI, more than 120 tons of cocaine, marijuana, and heroin were seized by Customs and the INS along the southwest border in 1999 - an increase of more than 20% over the previous year.

For fiscal year 2001, the budget proposes several important initiatives to strengthen the enforcement and interdiction capabilities of the U.S. Customs Service, our main player in the counter-narcotics fight. Commissioner Kelly can address these programs in greater detail, but summarized briefly they include:

- a $25 million request and 107 FTEs to aid Customs' investigations into the criminal organizations that smuggle narcotics into our country and distribute them in our communities;
- a $10 million request to enhance Customs' to detect illegal outbound currency movements: and
- a request of approximately $20 million in enforcement infrastructure improvements, including a P-3 FLIR upgrade, aircraft flight safety enhancements, surveillance equipment of helicopters, and an upgrade of the air interdiction center radar.

Together, these initiatives would help Customs improve on record-setting seizure statistics, while allowing it to better respond to the various smuggling routes and methods employed by narcotics traffickers.

Intelligence Architecture Review: Enforcement represented the Department in the inter-agency intelligence architecture review. The review, which also involved ONDCP, the Justice Department, CIA, and other agencies, led to a report, released last month, that contained a series of important action items to improve intelligence collection, dissemination, and use.

Narcotics Kingpin Act -- On December 3, the President signed the Intelligence Authorization Act for fiscal year 2000, which contains the Foreign Narcotics Kingpin Designation Act (the Act). The Act establishes a global sanctions program targeting significant foreign narcotics traffickers and their organizations modeled along the lines of the President's IEEPA-based program targeting Colombian narcotics cartels. The Act requires the Office of Foreign Assets Control (OFAC) to identify significant foreign narcotics traffickers and closely associated entities and individuals throughout the world and impose financial and trade prohibitions, as well as asset blocking, against them.

As a result of the significant workload increase driven by OFAC's responsibilities under the Act, the Department has included a request for $2.1 million and 20 FTE in the fiscal year 2000 supplemental request submitted to Congress in February. This would provide resources for OFAC to implement a global sanctions program targeting significant foreign narcotics traffickers and their organizations, as mandated by the Act. In addition, the fiscal year 2001 budget includes a request for $2.9 million and 11 FTE for OFAC to improve information gathering capabilities with respect to terrorist funding and narcotics trafficking and raise the quality of service to the public in the performance of OFAC's licensing function. OFAC currently has on-site staff gathering specialized information in Bogota, Colombia, on drug traffickers. Similar information gathering capability is needed in Dubai, United Arab Emirates to investigate terrorist funding, and in Panama and Bangkok to investigate drug traffickers. Sanctions programs are administered largely by licensing and the licensing function is OFAC's primary contact point with the public.

TRADE ENFORCEMENT AND FACILITATION

The United States is the world's largest exporting and importing country, and the volume of both exports and imports is growing rapidly. Over the five year period 1994 to 1999, the dollar value of exports increased by over a third (about 36 percent). During the same period the dollar value of imports increased by more than half (about 51 percent). These increases translate rather directly into increased workload for the Customs Service.

Our trade with other nations is vital to our economic strength and our standard of living, and we want to do everything we can to assure that the movement of trade across our borders is as frictionless as possible. At the same time, however, we recognize our responsibility to assure Congress and the American public that laws enacted to protect public health and safety, as well as other interests, are being effectively enforced at the border.

Current Activities and Priorities for Fiscal Year 2001

Improved Performance Measurement and Targeting of Violations: The Customs Service has continued to improve the accuracy and specificity of its compliance measurement system. In 1999 Customs submitted its fourth annual report to Congress on the results of compliance measurement. Compliance measurement is not only a tool for targeting Customs' enforcement activities. It also enables us to account to the Congress and the American people on how effectively Customs' trade enforcement resources are being used.

By illuminating where the problems are, compliance measurement also improves Customs' ability to implement a national risk management program that allows more efficient use of resources and more effective detection of violations.

Automation -- Customs' struggle to modernize its automated commercial system is well known to this Subcommittee, and is a problem of a kind that is not unique to Customs. We believe that we have made substantial progress in the last year in responding to problems identified by this Subcommittee and by the General Accounting Office in the development of Customs' new Automated Commercial Environment (ACE).

As we work to develop a new automated commercial system, we are paying close attention to the reliability of the current system, the Automated Commercial System (ACS). The ACS is Customs' current mechanism for allowing importers, carriers, and others to transmit required information electronically, and enabling Customs to process and store the information electronically. ACS greatly accelerates transactions between the trade community and Customs, allows quicker release of goods, reduces the number of instances in which shipments of goods must be held by Customs owing to the absence of required paper documents, reduces filing errors, and improves law enforcement at the border by making possible electronic analysis of information for risk assessment purposes.

However, the ACS was created in the early 1980s, and was developed with programming language that is now obsolete. The program is proprietary to Customs and not supported by any software vendor. Moreover, at the time ACS was created, the urgency of moving as rapidly as possible from a paper environment to an automated environment resulted in inadequate documentation of ACS programming. Customs is effectively prevented from modernizing its business practices - including changes authorized by the Customs Modernization Act of 1993 - because of the difficulty and cost of modifying the obsolete and poorly-documented programming language on which ACS runs. Among the obsolescent features of ACS: (i) it is transaction based, that is, it treats the release of each shipment as a separate, taxable transaction, requiring the filing of an individual entry (tax return); and (ii) it is service-port oriented, requiring that entries be filed at the port at which goods are released from Customs custody.

A little over a year ago the ACS began to experience periodic failures, or "brownouts". Although these did not last long, they were sufficient to remind us of the absolute necessity of maintaining a reliable automated commercial system for Customs. Consequently, we have given very high priority to upgrading the capacity and reliability of the ACS. We expect to spend up to $79 million in the current fiscal year, and we are requesting $123 million in fiscal year 2001, to assure that the American public can rely on its government for effective and efficient enforcement of our trade laws.

But we recognize that the trade community would like us to do more than simply assure the reliability of the current automated system. Each year the Customs Service must deal with the challenge of assuring that millions of freight containers and carriers entering the U.S. each year are in compliance with several hundred laws. In order for Customs to be effective at this job without becoming a serious impediment to commerce it must become a more efficient collector and intelligent user of information.

This is difficult to do with the ACS because, as I noted, it effectively locks Customs into obsolete business practices. Because it is difficult to modify ACS's software, Customs cannot even implement procedural reforms that were authorized in the 1993 Customs Modernization Act, let alone new procedures that have become possible since then.

The Automated Commercial Environment, or ACE, is the proposed new Customs automated commercial system. It would operate on modern software and the programming would be fully documented to facilitate subsequent programming changes. ACE would allow periodic filing of consolidated entries to cover multiple transactions, and it would allow filing from any location, and not only the port at which the goods are entered. ACE also includes equipment enhancements to increase reliability and upgrade connectivity among Customs offices around the country and between Customs and the trade community. For example, ACE would be accessible to the trade through the Internet, while ACS is accessible only over dedicated lines.

In our budget for fiscal year 2001 we are requesting $210 million for ACE development. We estimate the cost of ACE development over the next four years to be around $1.25 billion. This is a relatively costly initiative. The recently completed cost-benefit analysis for conversion from ACS to ACE shows that modernizing Customs' trade data processing system will provide significant benefits to both the federal government and the trade community. We continue to believe that the proposed fee appropriately captures some of the benefits private businesses will receive from Customs modernization, and therefore we have proposed to offset the costs of ACE over the next several years by creating a user fee to be collected from all parties that use Customs' automated systems. The amount collected from each user would be based on its volume of use.

We acknowledge that a similar user fee proposal last year was not well received. We have made some changes to our proposal this year that we believe go at least part of the way to meeting the objections of last year. For example, we are not asking, as we did last year, for the user fee to be collected a year in advance of appropriations for ACE.

The Administration is prepared, indeed eager, to work with Congress and the trade community to enact this proposal and begin work on ACE as soon as possible.

International Trade Data System: An interagency group working under Treasury leadership has finished the system design of a new international trade data system (ITDS), called for by the Vice President's National Program Re-invention project. The ITDS will offer a single electronic window for collecting all data required in connection with importing and exporting. When implemented, the new system will substantially improve the effectiveness and efficiency of government administration of laws that must be applied at the border, and will greatly reduce red tape imposed on importers, exporters, and carriers. Our budget proposal for fiscal year 2001 continues this program at the current level of $5.4 million.

G7 Data Harmonization: Completing harmonization of G7 customs data requirements, as outlined by the Lyon, Denver, and Birmingham G7 summit communiqués, will continue to be a priority in 2000. Current disparity in reporting requirements among G7 customs administrations imposes heavy reporting and record-keeping burdens on traders, and inhibits cooperation on law enforcement among governments.

Child Labor Enforcement: Treasury established a private sector advisory committee on child labor to help focus Customs' efforts to enforce laws prohibiting the importation of goods produced by forced labor. Customs' resources for enforcement efforts in the area of forced child labor have been increased. Customs had baseline resources of $3 million and 4 full-time equivalent positions (FTE) in fiscal year 1999, $5 million and 6 FTE in fiscal year 2000.

In fiscal year 2000, we are continuing to work aggressively to assure that goods produced by forced child labor are not allowed to enter the American market. Through the Child Labor Advisory Committee, Treasury and Customs are developing a program of business outreach aimed at fostering voluntary compliance with U.S. import restrictions on products of forced or indentured child labor through adoption of industry codes, best practices, and other methods. Customs will use additional budget resources provided by this Subcommittee to open a field office in South Asia dedicated to child labor enforcement, and will deploy additional investigative staff overseas as needed.

Additionally, Customs investigators have conducted a number of fact-finding missions to countries in Asia and Latin America where child labor is believed to be prevalent in a number of industries. Several visits have been made to South Asia, including India, Pakistan, Nepal, Bangladesh, and Thailand. With the fiscal year 1999 appropriation, additional agents were assigned to Bangkok, Hong Kong, and Montevideo. Additional agents will be assigned to the new South Asia field office that is being established in fiscal year 2000.

The fiscal year 2001 President's Budget requests an additional $5 million and 9 FTE, for a program total of $10 million and 15 FTE, to combat importation of goods made by forced child labor. The requested increase in fiscal year 2001 will enable us to attain even broader investigative coverage of overseas regions where child labor is believed to be endemic. These carefully placed investigative resources will enable Customs to acquire the detailed evidence that is required under U.S. law for Customs to detain merchandise manufactured with forced or indentured child labor.

The use of forced child labor to produce goods imported into the United States is not merely a matter of unfair commercial competition. Use of forced child labor perpetuates poverty and contributes to instability abroad by denying children the opportunity to pursue educational opportunities that could enable them to improve their standards of living. In fiscal year 2001, we shall remain committed to working with other governments, other U.S. government agencies, and with knowledgeable private sector groups, to assure that the U.S. market does not inadvertently become a means for supporting forced child labor.

EXPORT ENFORCEMENT

As events as demonstrated over the last few years, the United States continues to be targeted by those who seek to acquire our most advanced weapons and technology, often for purposes that directly or indirectly threaten the security of the American people. For years, the Customs Service has been an integral part of our response to that threat, by monitoring exports of goods from the U.S. to identify goods that embody sensitive technology.

Current Activities and Priorities for Fiscal Year 2001

Customs' ability to enforce effectively laws enacted by Congress to prevent the export of munitions and sensitive technology has been hampered by the difficulty of getting timely information about shipments leaving the country. Too often information is inadequate, inaccurate, or late. Two years ago the Treasury Department sponsored negotiations among the

Customs Service, the Commerce Department, and representatives of exporters and carriers to work out the terms for use of a modern, electronic export reporting system. As a result of the agreement reached, use of the Automated Export System (AES) to file export declarations electronically increased from about two percent of export declarations filed in January of last year to around 25-30 percent in January of this year. Because the AES, unlike its predecessor system, is accessible over the Internet, we expect use of electronic export filing to continue to grow. Electronic filing is, of course, convenient for exporters and carriers, but the government also benefits. Having timely export information in an electronic format greatly increases Customs' ability to monitor for export violations. In fiscal year 2001 we shall continue to promote use of the AES, and to look for other ways to improve the quality and timeliness of export data.

COUNTER-TERRORISM AND PROTECTION

Current Activities and Priorities for Fiscal Year 2001

On May 22, 1998, the President signed Presidential Decision Directive 62. This Directive created a new and more systematic approach to fighting the terrorist threat and created criteria for identifying events of national significance that may be vulnerable to terrorist threats. At several events this year, including the World Energy Conference in Houston, Texas and the highly successful NATO Summit here in Washington, D.C., Treasury bureaus, including the Secret Service and ATF were involved in providing security, and the Customs Service provided air support. We estimate that approximately three or four events of this nature will occur each year.

Additionally, Treasury leads an interagency working group in conjunction with the Customs Service to address issues of weapons of mass destruction (WMD). The focus of the group durin 1999 and 2000 has been to find ways to enhance our security and prevent WMD from entering the United States. Recent incidents, such as the arrest of several suspects at the end of 1999 in Washington and Vermont relating to the attempt to smuggle explosives into the United States. highlight the importance of heightened vigilance in this area.

ARSON

National Church Arson Task Force -- Treasury and Justice, along with others, continue to coordinate a nationwide federal, state and local law enforcement effort to identify and prosecute those who burn or damage our houses of worship, to help rebuild those institutions, to prevent additional fires, and to help heal community tensions resulting from attacks on our houses of worship. Due in part to increased vigilance, well-publicized arrests, and ongoing prevention efforts under the President's three-pronged strategy, church arsons continued on a downward trend during the past year.

In this statement I have been able to touch on only some of the important programs of Treasury's enforcement bureaus. In the individual bureau hearings that you will have. each bureau head will address our programs in greater detail. And, of course, I shall be pleased to respond in writing to any questions you want to direct to me about any of our programs.

In conclusion, Mr. Chairman, I would like to thank you, Mr. Hoyer, and the Members of this Subcommittee for your outstanding support of Treasury's law enforcement programs over many years. Our law enforcement bureaus have grown, they are better equipped, and they have become more professional as a result of your oversight and support. The benefits of this for the American public cannot be calculated. I would like also to thank the staff of this Subcommittee for its professionalism and patience over the last several years, as we wrestled with the problems that inevitably accompany growth and a rapidly-changing set of challenges. I do not want to miss this opportunity to express my appreciation and gratitude.

DEPARTMENT OF THE TREASURY

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Hearing on FY 2001 Appropriations

U.S. House of Representatives
Subcommittee on VA, HUD, and Independent Agencies

General Statement
Of
Ellen W. Lazar, Director

DEPARTMENT OF THE TREASURY
Community Development Financial Institutions Fund
March 9, 2000

INTRODUCTION

Chairman Walsh, Congressman Mollohan and distinguished Members of the Subcommittee, it is a pleasure to be before you today to represent the Community Development Financial Institutions (CDFI) Fund. I am Ellen Lazar, the Director of the Fund. Before I begin my testimony, I would like to introduce to you two other key members of the Fund who are with me today: Owen Jones, Deputy Director for Management/Chief Financial Officer of the Fund, and Maurice Jones, Deputy Director for Policy and Programs at the Fund.

My testimony today will focus on four major areas: 1) the principles underlying the operations of the CDFI Fund; 2) the Fund's management systems; 3) the performance of the Fund so far; and 4) Fund objectives for FY 2001.

THE CDFI FUND: PRINCIPLES OF OPERATION

The CDFI Fund, working with private sector partners across the country, operates on four basic principles: 1) its programs and initiatives are highly targeted, focusing on areas and individuals inadequately served by conventional financial markets; 2) its funds are recycled within communities in need; 3) its Federal resources leverage private sector and other non-Federal resources into underserved places; and 4) its programs stress performance in the form of both outputs and outcomes.

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CDFI Fund programs strive to address gaps in the marketplace by targeting resources to financial institutions that serve individuals and communities that cannot adequately access capital from the traditional marketplace. For example, funds are used to support: 1) small business loan funds that originate loans, sometimes as small as $500, that are difficult for mainstream financial institutions to offer; 2) housing loan funds that provide downpayment and closing cost assistance, subordinated debt, pre-development grants, bridge loans and other sources of financing that increase the supply of affordable housing and enable poor people to get mortgages; 3) community development banks and credit unions that offer Individual Development Accounts, Electronic Transfer Accounts, and other products targeted to underserved populations; and 4) community development venture capital firms whose highly targeted investments facilitate the creation and retention of jobs in distressed areas across America.

To ensure that CDFI funds support institutions serving those most in need, the Fund requires all organizations designated by the Fund as CDFIs to demonstrate that at least 60% of their activities are targeted to distressed communities, low-income individuals, or other individuals that have been denied access to mainstream financial services. The Fund further requires that these organizations provide technical assistance and training to their borrowers. This requirement benefits CDFIs as well as their borrowers. CDFIs will enjoy higher rates of repayment and larger returns on their investments, and borrowers will acquire general financial and business skills and develop positive credit histories. As a result, both the CDFIs and the borrowers they serve become more attractive to mainstream financial institutions.

The CDFI Fund's assistance to needy communities supports community and economic development activities for years after the Fund's initial investment. The Fund requires applicants seeking designation as a CDFI to demonstrate that their predominant business activity is the provision of loans, equity investments, deposit accounts or other sources of capital that can be invested, repaid, and then recycled to other individuals or organizations in need. In addition, the Fund provides investments that directly support the long-term growth and viability of lending-based institutions. Fund awards enable institutions to build their capacity to better administer their programs and provide them with the capital needed to grow their loan funds and make their products more affordable to their borrowers.

The CDFI Fund leverages investments from other public and private institutions. Under several of the Fund's programs, applicants must demonstrate that they have significant community partnerships in place. In addition, certain awardees are required to provide a dollar for dollar match of non-Federal assistance for each dollar of Fund assistance provided. These matching funds come from a variety of sources, including local governments, banks, insurance companies, foundations, individuals and non-profit institutions. The match requirement helps to ensure that the awardee coordinates the use of Fund assistance with other entities in the community, and that these other entities will be involved in supporting the ongoing operations of the CDFI.

The Fund also encourages mainstream financial institutions to invest in CDFIs. Regulated financial institutions may receive awards from the Fund for, among other things, increasing their provision of grants, equity investments, loans, deposits or other investments to certified CDFIs.

The CDFI Fund programs are designed to achieve maximum community and economic development impact. When a CDFI applies to the Fund for assistance, it must submit a business plan that includes its projected levels of activity and the anticipated impact of these activities upon the community. Prior to receiving a Fund award, an awardee must agree to meet performance standards that are based upon the activities and impacts outlined in its business plan. For example, a housing loan fund that receives an award would have to meet minimal thresholds not only for the number and dollar amount of loans it originates, but also for the number of housing units created as a result of its financing. Similarly, a business loan fund may be monitored based not only upon the number and dollar amounts of loans it disburses, but also upon the number of jobs created or retained by its borrowers. This type of "performance-based monitoring" helps ensure that the Fund is achieving a high degree of community development impact as a result of its investments.

MANAGING FOR RESULTS

I am pleased to report that our independent auditors (KPMG, LLP) provided an unqualified opinion on the Fund's financial statements for the fiscal year that ended September 30, 1999. KPMG's opinion affirms that the Fund's Statements of Financial Position, Operations, and Changes in Net Position and Cash Flow are fairly presented. This marks the third consecutive year in which the Fund has received an unqualified audit opinion. In addition, for the second year in a row, the Fund's independent auditors identified no material weaknesses. Also, the Fund has no reportable conditions. These findings reflect the tireless commitment of the Fund's staff to sustaining and improving upon its internal controls, operating policies and procedures, and awards monitoring.

The Fund continues to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The Fund's system of internal management, accounting and administrative control has been strengthened and is operating effectively. Enhanced policies and procedures ensure that Fund programs achieve their intended results; Fund resources continue to be used in a manner that is consistent with its mission; and Fund programs and resources are protected from waste, fraud, and mismanagement.

Enhanced internal efficiencies and improved staff capacity have resulted in unprecedented levels of productivity at the Fund. In FY 1999, we selected 260 institutions to receive $112 million in awards, a 32% increase in the dollar amount of awards made in 1998. Our carry-over into FY 2000 was approximately $10 million – a nearly four fold reduction from the $36 million carried-over in FY 1999. We anticipate having no carry-over into FY 2001.

As I discussed with the Subcommittee in previous years, the Fund is committed to managing for results. Its mission is to promote access to capital and local economic growth by directly investing in and supporting CDFIs and expanding banks' and thrifts' lending, investment, and services within underserved markets. I would like to highlight some of the progress we have made in achieving this important mission.

CDFI FUND INITIATIVES -- PUTTING CAPITAL TO WORK

The CDFI Fund pursues its mission goals through seven initiatives: 1) CDFI Certification; 2) the CDFI Program, which includes the Core, Technical Assistance and Intermediary Components; 3) the Bank Enterprise Award (BEA) Program; 4) the Training Program; 5) Microenterprise Initiatives; 6) Policy and Research Efforts; and 7) the Native American Lending Study/Action Plan.

CDFI Certification

To help recognize and support the growing CDFI industry, the Fund reviews the applications of organizations wishing to become Federally certified CDFIs. In order for the Fund to certify an organization as a CDFI, the organization must meet each of the following six criteria:

1. The organization and its affiliates must collectively have a primary mission of promoting community development;
2. The organization must be a financing entity (either an insured depository institution or an institution that principally provides loans or equity investments);
3. The organization must principally serve a target market consisting of distressed neighborhoods, low-income people, or other underserved populations;
4. The organization must provide training or technical assistance in conjunction with its financing activities;
5. The organization must maintain accountability to its identified target market; and
6. The organization must be a non-governmental entity.

There are several potential benefits of CDFI certification. First, certification enables an organization to be eligible to receive assistance from the Fund. Second, certified CDFIs may increase their capital by becoming partners with regulated financial institutions seeking awards from the Fund for investments in CDFIs. Third, CDFI certification may increase an organization's ability to raise funds from sources such as corporations, foundations and state and local governments. Finally, certified CDFIs may receive technical assistance from the Fund and training support from organizations sponsored by the Fund.

To date, the Fund has certified over 380 organizations as CDFIs. These organizations are headquartered in 47 states, the District of Columbia and Puerto Rico. CDFIs include community development banks, community development credit unions, housing loan funds, facilities loan funds, small business loan funds, micro-enterprise loan funds, multi-bank community development corporations, intermediaries and community development venture capital funds. On average, the Fund certifies approximately 75 new CDFIs each year.

The CDFI Program

The CDFI Program has three funding components: Core, Intermediary and Technical Assistance. These three components promote the Fund's goals, articulated in its strategic plan, of strengthening the expertise and the financial and organizational capacity of CDFIs to address the needs of the communities that they serve. The Fund engages in targeted outreach to inform potential applicants to these funding components. The Fund also provides debriefings to applicants that are not selected for awards.

The ***Core Component*** builds the financial capacity of CDFIs by providing equity investments, grants, loans or deposits to enhance the capital base -- the underlying financial strength -- of these organizations so that they can better address the unmet community development needs of their target markets. In addition, under the Core Component, the Fund provides technical assistance grants in order to build the capacity of awardees and maximize the community development impact of the Fund's awards.

The Fund selects awardees that clearly demonstrate private sector market discipline and the capacity to positively impact underserved communities. The Core Component leverages additional private and public sector investments into these same organizations through the Fund's application requirements, particularly the one-to-one non-Federal matching funds requirement.

In FY 1999, the Fund provided 78 Core Component awards totaling over $78 million. This represents an 86% increase over the number of Core Awards provided in FY 1998 (42 awards), and a 77% increase over the total amount of dollars awarded under the Core Component in 1998 ($44 million). Since inception, the Fund has made approximately 200 Core Awards totaling over $193 million.

On November 1, 1999, the Fund published a Notice of Funds Availability (NOFA) announcing the availability of $50 million in Core Component awards for FY 2000. We expect to make approximately 50-70 awards under this NOFA. The application deadline was January 20, and, as has been the case in every year, we are over-subscribed. The Fund received 160 applications requesting a total of $264 million, over five times the amount of money the Fund announced as available under this program in FY 2000.

The ***Intermediary Component*** allows the Fund to invest in CDFIs indirectly, through intermediary organizations that support CDFIs and emerging CDFIs. These intermediary entities, which are also CDFIs, generally provide intensive financial and technical assistance to small and growing CDFIs, thereby strengthening the industry's financial and institutional capacity. Like Core awardees, Intermediary awardees are required to obtain matching funds in comparable form and value to the financial assistance they receive from the Fund.

Since inception, the Fund has made Intermediary Awards totaling over $15 million to five different institutions. On November 1, 1999, the Fund published a NOFA announcing the availability of $6 million in Intermediary Component awards for FY 2000. The application deadline for this NOFA was January 18, and the Fund received seven applications requesting over $9 million in assistance.

The ***Technical Assistance (TA) Component*** of the CDFI Program was first introduced in 1998. This component builds the capacity of "start-up", young and small institutions. The TA Component allows the Fund to direct relatively small amounts of funds -- generally $50,000 or less -- to CDFIs that demonstrate significant potential for generating community development impact, but whose institutional capacity needs to be strengthened before they can fully realize this potential. Some typical uses of our TA grants include: achieving operating efficiencies through computer system upgrades and software acquisition; producing internal policies and procedures; evaluating current loan products and developing new ones; and training staff in operations essential to the success of the organization.

In FY 1999, the Fund provided 88 Technical Assistance Component awards totaling over $4 million. This represents a 24% increase over the number of TA awards provided in FY 1998 (71 awards), and a 33% increase over the total amount of dollars awarded under the Technical Assistance Component in 1998 (approximately $3 million). Since inception, the Fund has made 159 Technical Assistance Awards totaling over $7 million.

On January 4, 2000, the Fund published a NOFA announcing the availability of $4.5 million in Technical Assistance awards for FY 2000. Commencing this year, the Fund will make award decisions regarding FY 2000 TA applications on a rolling basis with four separate application deadlines. In this manner, we hope to expedite both the approval and disbursement of TA awards and give TA applicants more flexibility in terms of when they apply for funds. We expect to issue approximately 80-90 TA awards in FY 2000.

Outreach: To date, institutions in 47 states plus the District of Columbia, Puerto Rico and the Virgin Islands have received CDFI Program awards. To inform potential applicants about the Fund's programs, the Fund conducts informational workshops throughout the country. In preparation for the FY 2000 round of applications, the Fund conducted 13 Core/Intermediary Component outreach sessions, including one that was broadcast by satellite to 73 locations; and 7 Technical Assistance Component outreach sessions, including one that was broadcast by satellite to 85 locations. The live sessions were held in regions of the country where there are relatively fewer CDFIs, including four sessions specifically targeted to organizations serving Native American populations.

The Fund is particularly interested in reaching out to organizations that provide capital and technical assistance to rural communities. In FY 1999, about 22% of our Core Component awards and 32% of our Technical Assistance Component awards were provided to organizations that predominantly serve rural markets. By comparison, about 26% of our Core Component awards and 56% of our Technical Assistance Component awards were provided to organizations that predominantly serve urban markets. The remainder of our awards went to organizations that serve a mix of urban and rural areas. We will continue to increase our efforts to reach rural communities. In the past few months, we have conducted, either live or by satellite, information sessions in 55 rural communities – two and a half times the number reached in FY 1999.

Debriefings: To further our goal of building the institutional capacity of the CDFI field, we provide debriefings to applicants that were not selected for CDFI Program awards. Applicants are given valuable feedback about strengths and weaknesses of their applications as observed by those community development professionals involved in reviewing their requests for funding. Many of these applicants use the information gathered from the debriefing to build the strength of their operations and to improve their performance. In FY 1999, the Fund provided debriefings to 110 institutions that had been unsuccessful in seeking awards under the FY 1998 funding round. Already in FY 2000, we have provided debriefings to 62 organizations that were not selected to receive an award in FY 1999.

The Bank Enterprise Award Program

The Bank Enterprise Award (BEA) Program is the principal means by which the Fund achieves its strategic goal of expanding financial service organizations' community development lending and investments. The BEA Program recognizes the key role played by mainstream depository institutions in promoting the revitalization of distressed communities.

The BEA Program provides monetary incentives for banks and thrifts to expand their investments in CDFIs and/or to increase their lending, investment and service activities in distressed communities. BEA awards vary in size, depending upon the type and amount of assistance provided by the bank and the activities being funded through the bank's investments. In general, banks that provide equity investments to CDFIs are likely to receive the largest awards relative to the size of their investments.

The leveraging involved in the BEA Program is impressive. To date, 274 awards totaling over $89 million have been announced for banks and thrifts investing in CDFIs and distressed communities throughout the country. This $89 million actually reflects investments in CDFIs and underserved communities of $1.87 billion, over 20 times the amount of the Fund's investment. To date, banks and thrifts receiving BEA awards have provided $439 million directly to CDFIs, and $1.43 billion to distressed communities in the form of direct loans, investments and services.

In FY 1999, as in every year since the program's inception, the Fund increased both the number and the total amount of our BEA awards. In FY 1999, we made 103 awards totaling $31.7 million. This represents an increase of 30% over the number of awards made in 1998 (79 awards), and 13% over the dollar amount of the awards made in 1998 ($28.1 million).

On September 1, 1999, the Fund published a NOFA announcing the availability of $25 million in BEA Program funds for FY 2000. The application deadline for this NOFA was November 23, 1999. We received 228 applications, a 64% increase over the 138 applications that were received in FY 1999. If the applicant institutions complete all of the activities proposed in their applications, we estimate that they would be eligible for awards totaling approximately $113 million -- four and a half times the amount of money currently available for the BEA Program.

The Training Program

The Training Program, begun in FY 1999, enhances the Fund's ability to achieve its strategic goal of strengthening the organizational capacity and expertise of CDFIs. The Training Program provides funds that support the development and delivery of training products to CDFIs and other financial service organizations engaged in community development finance. Training needs will be addressed via classroom instruction, web-based distance learning, and other electronic formats. In addition, the Fund will explore supporting other types of capacity building training opportunities, including structured internships.

In FY 1999, the Fund initiated its first activity under this program. We undertook a market analysis of the training needs and resources of CDFIs and community-focused financial service organizations. The purpose of the market analysis was to determine: (1) the quality and extent of training available for CDFIs and financial service organizations engaged in community development lending; (2) the training needs of such organizations; (3) impediments to obtaining needed and adequate training for such organizations; and (4) strategies for eliminating those impediments. We recently received the results of this analysis and expect it to inform our future training initiatives.

In FY 2000, the Fund anticipates awarding, through competitive procurement processes, up to $6 million in contracts to entities for the purpose of developing and delivering specific training products to CDFIs and eligible financial service organizations. Funding will be made available to entities that provide training in a number of disciplines, including market analysis, financial projections, program development and organizational development.

Currently the Fund has received and is reviewing proposals from training providers offering the development and delivery of training for three specific areas: preparation of financial projections; preparing a market analysis; and the fundamentals of lending operations. We anticipate that the proposals will result in over $1 million in contracts. Training provided under these contracts will begin this year.

Microenterprise Initiatives

As part of its strategy to democratize access to capital, the Fund works to strengthen the field of microenterprise development and microentrepreneurs. In addition to providing assistance to microenterprise loan funds under the CDFI Program, the Fund administers two initiatives specifically targeting microenterprise organizations and microentrepreneurs: 1) the Presidential Awards for Excellence in Microenterprise Development; and 2) the Interagency Workgroup on Microenterprise Development.

The ***Presidential Awards for Excellence in Microenterprise Development*** is an annual non-monetary awards program that recognizes organizations that have demonstrated excellence and leadership in promoting microenterprise development. These awards reflect the Administration's on-going commitment to advancing the role of microenterprise development in enhancing economic opportunities for all Americans -- particularly low-income people and others who lack access to traditional sources of credit and business development assistance. By recognizing outstanding organizations, the program promotes "best practices" within the microenterprise development field in the United States and brings wider public attention to the important role of microenterprise development in the domestic economy.

Awards are given to practitioner organizations - entities that provide microentrepreneurs access to credit, training, counseling and technical assistance - for demonstrating excellence in *providing access to capital; alleviating poverty; developing entrepreneurial skills;* and *innovative programming*. In addition, organizations that support the effort of practitioner organizations through financial assistance, technical assistance, research, or other activities are eligible for awards for demonstrating *excellence in public or private support*.

The Fund is co-chairing, with the Small Business Administration, the ***Interagency Workgroup on Microenterprise Development***. The workgroup was established in 1998 to coordinate the work of Federal agencies involved in microenterprise efforts, and to develop a coherent framework for Federal government efforts to promote microenterprise. The Workgroup includes participants from several Federal agencies and departments. It is examining Federal policies that affect the microenterprise field and is harmonizing discrepancies in definitions and reporting standards among Federal programs that support microenterprise development. This year the workgroup expects to publish a policy paper, a matrix of microenterprise programs at the Federal level, a listing of needs of the field, and case studies highlighting examples of microenterprise best practices.

Policy and Research Initiatives

The Fund's Policy and Research initiatives focus on three areas: 1) measuring and reporting on the performance of awardees; 2) promoting industry-wide research and development activities; and 3) instituting policies that maximize the effectiveness of the Fund's programs.

Reporting on Performance and Outcomes:

Core Component Survey -- For the second consecutive year, the Fund conducted a survey of its Core Component awardees to determine the impact of these awardees on the communities that they serve. We evaluated only 1996 and 1997 awardees because they have had at least one year to absorb the Fund's investments and put them to work. As of today, we have received and analyzed responses from 44 of 74 organizations. Together, these awardees received over $45 million in Fund awards. What has our $45 million helped these institutions to accomplish?

Our preliminary findings demonstrate that these awardees have generated significant community development impact. Since the time of their award, our Awardees have made over $1.4 billion in community development loans and investments, which have helped to: create or expand 3,961 microenterprises and 1,947 businesses; create or maintain 34,373 jobs; develop or rehabilitate 27,112 units of affordable housing; and develop or support 689 community facilities. These facilities have the capacity to provide child care to 13,922 children, health care to 49,179 patients and education to 5,554 students.

Our credit union and community development bank awardees provided 69,179 checking and savings accounts totaling over $115 million in 1999. Sixty-nine percent (69%) of these accounts are held by low-income individuals. These institutions have also provided 337 Individual Development Accounts (IDAs) with deposits totaling over $362,000.

Since receiving their Fund awards, the 44 awardees have also strengthened their capacities to deliver products and services to their target communities. Our awardees provided business training, credit counseling, homebuyer training and other development services to 31,318 individuals and organizations. Their total assets have increased by 113%, growing from $643 million in the aggregate before they received their awards to $1.37 billion in the aggregate in 1999. Based on our sample, 71% of the clients served are low-income individuals. Fifty-five percent (55%) are minority individuals and 51% are women. Forty-eight percent (48%) live in the inner city, 42% live in rural communities and 10% live in suburban areas.

Finally, Fund awardees have leveraged significant additional capital. They estimate that an additional $194 million in capital over and above the $45 million raised as part of our 1:1 matching funds requirement can be directly attributed to receipt of a Fund award. In most cases, their community development loans and investments were part of a larger deal. In 1999, for every $1 our awardees loaned or invested in their communities, $1.30 was invested by other entities.

The Fund is currently engaged in efforts to improve upon the information collected in this survey and to reduce the reporting burden that is placed on awardees. We have been engaged in discussions with industry groups and private funders to devise a CDFI industry-wide survey that could be administered annually to the Fund's Core Component awardees as well as to other CDFIs in the field. A single, uniform survey will help to standardize data for the entire field of CDFIs, and help to reduce the reporting requirements of individual CDFIs - many of whom currently complete different surveys for each of their funders.

BEA Program Survey: This past year, the Fund developed a pilot survey and administered it to a sample of 30 banks and thrifts that received BEA awards in 1998. Thus far, we have received responses from 23 institutions. Among other things, the survey asked: 1) how the promise of a BEA award influenced the lending policies or products of the awardee; 2) how the awardee spent its BEA award. We are still collecting and analyzing surveys, but the preliminary findings indicate that the BEA Program is a valuable tool for encouraging banks to increase their community investments.

The pilot survey indicates that the BEA Program has been successful in helping banks to offer more flexible products to organizations and individuals. The vast majority of the respondents reported that the likelihood of a BEA award allowed them to offer or develop products they otherwise wouldn't have. These include longer term, lower interest rate loans; below market rate deposits; and new products such as pre-development loans. Many of the respondents also indicated that the prospect of a BEA award allowed them to offset risks of return, and thus fund projects that they would not have otherwise supported. A majority of respondents also reported that they increased their investments in CDFIs and/or built new relationships with CDFIs as a consequence of participating in the BEA Program.

Twenty-one (21) of the 23 respondents reported that they used their BEA award monies to fund additional community development initiatives. This is an impressive outcome, given that awardees are under no obligation to reinvest BEA Program award funds in this fashion. Many of the respondents reported using their BEA awards to increase their grants and investments in CDFIs and in other non-profit community development organizations. Others used their award money to subsidize below market rate loans to community development institutions and low-income borrowers, or to increase the provision of technical assistance to borrowers.

The Fund is encouraged by the preliminary results of this survey, as well as the response rate we achieved. These findings suggest that the BEA Program is an effective incentive for banks to increase their community development finance activities.

Reporting on Certified CDFIs*:* With over 380 organizations certified as CDFIs and new applications for certification arriving regularly, the Fund has information on more CDFIs than any other entity in the country. This past year, the Fund worked with CDFI industry groups to develop a brief questionnaire that will produce aggregate, standardized data from every certified CDFI. This data will enable the Fund to report on the total volume of CDFI lending and investing, portfolio quality, community development impact indicators, capital managed by CDFIs, and basic CDFI financial indicators. As of November 1, 1999, all entities seeking certification or re-certification with the CDFI Fund are required to complete this brief questionnaire.

Promoting Industry-Wide Research and Development: The Fund has begun working with CDFI industry groups and other major funders to develop an industry-wide research agenda. The Fund has solicited input from practitioners, funders and academics to identify gaps in existing research and will work with the industry to establish a coordinated research program that addresses the needs identified by the industry and its investors. The Fund has also initiated, and will continue to pursue, in-house research activities that examine various aspects of our awardees' work.

Developing Fund Policies: The Fund is constantly seeking to improve upon its programs and policies to obtain higher levels of efficiency, and to be more responsive to the needs of our applicants and awardees. In 1999, the Fund performed a comprehensive review of its certification and funding processes. The Fund solicited input from applicants and awardees, external reviewers, and Fund staff about ways to improve documents and processes to ensure that they are well coordinated and transparent. With this feedback, the Fund implemented significant revisions to its certification, Core, Intermediary and TA applications, application review criteria, awards closings procedures and reporting requirements. These changes were codified as revised interim regulations, published on November 1, 1999. As a result, applicants for certification or for funding in FY 2000 and in future years will benefit from more transparent and efficient policies, procedures and application materials.

Native American Lending Study/Action Plan

Our Native American Lending Study/Action Plan is intended to stimulate private investment on Native American reservations and other lands held in trust by the United States. The first step in accomplishing this goal is to identify the barriers to private financing in these areas. To this end, the Fund conducted 13 regional workshops across the country. The workshops included participants from Native American communities, financial institutions, Federal and state agencies, and community development organizations. Participants in these workshops identified barriers to investments in Native American communities and developed strategies and actions for eliminating these barriers. The Fund is also administering a national survey to collect additional data from Native American organizations and financial institutions regarding barriers to accessing capital in Native American communities. The products from these workshops and the results of this survey will assist the Fund in completing the Study. It is anticipated that the final report will be submitted to the Congress and the President by the end of FY 2000. This report will contain recommendations regarding policy, legal, statutory and regulatory changes needed to spur more investment within Native American communities.

THE YEAR AHEAD: FY 2001

The President's FY 2001 budget request includes $125 million in appropriations for the Fund. This request is $30 million above FY 2000 funding levels. Of the $30 million in additional funding requested, the Fund proposes to use $28,360,000 to fund its various programs and $1,640,000 to cover administrative expenses. These additional appropriations will assist the Fund in its efforts to continue to meet the great demand for its programs. In the past, we have addressed this demand with a combination of new appropriations and funds carried over from previous fiscal year appropriations. However, because we do not anticipate carrying over any appropriations into FY 2001, the Fund will need all of the President's FY 2001 budget request to address the demand for its programs.

In every year since the Fund's inception, interest in our programs has increased. This year has been no exception to that rule. In FY 2000, the Fund received 167 Core and Intermediary Component applications requesting a total of $273 million in awards - or 37% more than the $200 million requested under these Components in FY 1999. The Fund also experienced a 64% increase in the number of BEA Program applications received in FY 2000 as compared with FY 1999. The additional appropriations requested for the Fund by the President's FY 2001 budget will enable the Fund to continue to invest in worthy organizations and proposals at approximately the same rate as it has done up to now.

The Fund is requesting an additional $1.6 million in appropriations for FY 2001 to cover administrative costs. These funds will be used to support 10 new FTE positions and to cover the salary cost of living increase for existing staff. Consistent with our appropriations requests outlined above, we anticipate that most of these new hires will be used to administer Fund programs. Current Fund staff work tirelessly to ensure that the Fund makes prudent investments and that our awards are disbursed in a timely fashion. However, the increasing demand for our programs and a growing portfolio of investments to monitor makes it necessary to hire additional staff. Sufficient staff ensures that we will continue to make sound investment decisions and retain the capacity to monitor the growing number of awardees in our portfolio.

The Fund's budget request for FY 2001 also includes a $5 million set-aside for the purpose of establishing training and technical assistance programs to increase access to capital in Native American, Alaskan Natives and Native Hawaiian communities. The need for this set-aside was identified in the workshops related to the development of the Native American Lending Study/Action Plan. This set-aside would fund educational and other programs that: 1) enable financial institutions currently serving these communities to enhance their capacity to provide access to capital and credit; 2) assist financial institutions contemplating serving these underserved communities to do so; and 3) assist these communities in establishing their own community development financial institutions.

We anticipate making additional innovations in our programs that will enable us to better serve small, emerging and rural CDFIs in FY 2001. We plan to amend our Technical Assistance Component to allow small and emerging CDFIs to compete for both technical assistance and financial assistance in amounts up to $150,000 to $200,000 per round. This innovation addresses the Small and Emerging CDFI Access Program idea that Congress encouraged the Fund to consider last Fall. We are also looking forward to expanding some of our current research initiatives. We intend to fund a research project this year that examines the feasibility of creating a secondary market for community development loans. Pending the outcome of this study, we hope to be able to fund a secondary market pilot project in FY 2001.

Finally, we anticipate that our nascent Training Program will facilitate the development and delivery of several new training and technical assistance products by 2001. The Fund will solicit bids from prospective developers and providers of training products in FY 2000, with the intent that they will complete their products and make them available to CDFIs and other community development financial service organizations early in 2001.

CONCLUSION

Mr. Chairman and members of the Committee, thank you for giving me the opportunity to provide this information on the Fund's current activities and FY 2001 budget. I am hopeful that this Committee will approve the President's $125 million budget request for the Fund, so that we may continue to work on creating jobs, affordable housing, childcare facilities, small businesses and economic revitalization across America.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 4:30 PM
March 9, 2000

TREASURY RELEASES ANNUAL FOREIGN EXCHANGE RATE REPORT

The Treasury Department today released the update to the eleventh annual Report to Congress on International Economic and Exchange Rate Policy, which reviews developments in the major economies and exchange markets, and assesses the foreign exchange systems of a number of our major trading partners. The report is provided under the Omnibus Trade and Competitiveness Act of 1988.

This report covers the period from July 1, 1999 to December 31, 1999, when the U.S. economy continued to perform strongly relative to its major trading partners. The U.S. economy over this period continued to experience a combination of strong output growth, low inflation and employment expansion not seen in nearly three decades.

Amid a slow recovery in emerging markets, continued Japanese economic weakness, and the beginning of faster European growth, U.S. exports grew slowly and the U.S. current account deficit increased significantly and is likely to continue to increase in the months ahead. The relative strength of the U.S. economy fueled strong capital inflows into the United States which helped sustain domestic investment despite low personal savings, but also contributed to a continued deterioration in the U.S. net international investment position.

Reflecting the relative strength of the U.S. economy compared to key U.S. trading partners, the nominal value of the dollar depreciated by 1.6% on a trade weighted basis in the second half of 1999. This depreciation followed a 2.6% rise in the first half of 1999.

United States monetary authorities did not engage in any intervention for their own account during the period covered by this report.

The Report presents an updated assessment of whether countries have manipulated exchange rates between their currencies and the dollar to prevent balance of payments adjustment or gain an unfair competitive advantage in international trade (as defined in the Omnibus Trade and Competitiveness Act). It concludes that none of the major trading partners of the United States is manipulating its exchange rate under the terms of the Act.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
March 9, 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 $16,000 million to refund $41,537 million of publicly held securities maturing March 16, 2000, and to pay down about $25,537 million. The amount of maturing publicly held securities includes the 13-day cash management bills issued March 3, 2000, in the amount of $25,014 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $7,609 million of the maturing bills, which may be refunded at the highest discount rate of accepted competitive tenders. Amounts issued to these accounts will be in addition to the offering amount.

The maturing bills held by the public include $5,213 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 $939 million into the 13-week bill and $748 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 MARCH 16, 2000

March 9, 2000

Offering Amount	$8,500 million	$7,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 EA 5	912795 EF 4
Auction date	March 13, 2000	March 13, 2000
Issue date	March 16, 2000	March 16, 2000
Maturity date	June 15, 2000	September 14, 2000
Original issue date	December 16, 1999	September 16, 1999
Currently outstanding	$11,709 million	$15,542 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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: IMMEDIATE RELEASE
·ch 9, 2000

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT: Bill Buck
202-622-1997

TREASURY DEBT BUYBACK OPERATION RESULTS

Today, Treasury completed a debt buyback (redemption) operation for $1,000 million of its outstanding issues. A total of 13 issues maturing between February 2015 and ruary 2020 were eligible for this operation. The settlement date for this operation will March 13, 2000. Summary results of this operation are presented below.

(amounts in millions)

ers Received (Par Amount):	$8,627
ers Accepted (Par Amount):	1,000
al Price Paid for Issues (Less Accrued Interest):	1,345
ber of Issues Eligible:	
For Operation:	13
For Which Offers were Accepted:	9
ghted Average Yield of all Accepted Offers (%):	6.491
ghted Average Maturity for all Accepted Securities (in years):	16.0

ails for each issue accompany this release.

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March 9, 2000

TREASURY DEBT BUYBACK OPERATION RESULTS

(amounts in millions, prices in decimals)

Table I

Coupon Rate (%)	Maturity Date	Par Amount Offered	Par Amount Accepted	Highest Accepted Price	Weighted Average Accepted Price
11.250	02/15/15	772	160	144.796	144.779
10.625	08/15/15	1,272	352	139.796	139.739
9.875	11/15/15	559	125	132.906	132.893
9.250	02/15/16	422	93	127.187	127.153
7.250	05/15/16	549	0	N/A	N/A
7.500	11/15/16	509	0	N/A	N/A
8.750	05/15/17	670	148	123.515	123.501
8.875	08/15/17	460	53	125.062	125.062
9.125	05/15/18	307	20	128.359	128.347
9.000	11/15/18	660	25	127.500	127.500
8.875	02/15/19	794	25	126.398	126.398
8.125	08/15/19	868	0	N/A	N/A
8.500	02/15/20	785	0	N/A	N/A

Table II

Coupon Rate (%)	Maturity Date	CUSIP Number	Lowest Accepted Yield	Weighted Average Accepted Yield	Par Amount Privately Held*
11.250	02/15/15	912810DP0	6.511	6.513	10,852
10.625	08/15/15	912810DS4	6.500	6.504	5,631
9.875	11/15/15	912810DT2	6.496	6.497	5,833
9.250	02/15/16	912810DV7	6.486	6.489	6,137
7.250	05/15/16	912810DW5	N/A	N/A	17,726
7.500	11/15/16	912810DX3	N/A	N/A	17,486
8.750	05/15/17	912810DY1	6.462	6.463	15,530
8.875	08/15/17	912810DZ8	6.457	6.457	12,010
9.125	05/15/18	912810EA2	6.451	6.452	7,458
9.000	11/15/18	912810EB0	6.445	6.445	8,469
8.875	02/15/19	912810EC8	6.441	6.441	17,541
8.125	08/15/19	912810ED6	N/A	N/A	18,373
8.500	02/15/20	912810EE4	N/A	N/A	8,868

:al Par Amount Offered: 8,627

:al Par Amount Accepted: 1,000

ɔount outstanding after operation. Calculated using amounts reported on announcement.

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For Immediate Release
As Prepared for Delivery
July 21, 1995

STATEMENT OF LAWRENCE H. SUMMERS
NOMINEE FOR DEPUTY SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman, I am grateful for this opportunity to appear before you today in connection with my nomination to be Deputy Secretary of the Treasury. I am deeply honored by the trust that Secretary Rubin has shown in recommending me for this position, and that the President has demonstrated in nominating me.

For the past two and a half years, I have served as Under Secretary for International Affairs at the Treasury Department. It has been my privilege to work first with Secretary Bentsen, then with Secretary Rubin on a wide range of economic and financial issues facing our nation. I believe that the President and the Congress, working in a spirit of bipartisan cooperation, have achieved real progress over these past two and a half years toward increasing America's export potential, opening foreign markets to our goods and services, and reintegrating the transition economies of the former Soviet Union and Eastern Europe into the world economy.

My experience before coming to Treasury was as an economist working on policy questions, first as a professor at Harvard, and then as Chief Economist and Vice President at the World Bank. At Harvard I taught and conducted research on a range of economic issues, including tax policy, unemployment, and the role of financial markets. At the Bank I had responsibilities for managing the organization's research, statistical, and training programs, and participating in its lending decisions.

If confirmed as Deputy Secretary, I look forward to working very closely with Secretary Rubin and assisting him in the fulfillment of the Treasury Department's broad array of responsibilities. I believe that there is nothing more important for the future of our country than successful economic policies that allow market forces to harness the tremendous economic energy of the American people. Appropriate public policies in support of a sound financial system are crucial to attaining this objective.

In particular, I would highlight four areas which should be priorities for the Treasury

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Department in advancing the continued economic success of the American people over the months and years ahead.

One is the need to increase our national savings and investment rates -- both of which lay the foundation for our nation's future. Cutting government spending and balancing the budget, considering tax and other measures that can increase private savings, and furthering critical public investments can all play an essential role in achieving rising standards of living for the American people.

A second priority must be continued support for international economic cooperation. We must work with other countries to ensure that the process of opening markets, furthering market-oriented reforms in developing countries, and safeguarding the functioning of international financial markets goes forward.

Third, the United States must maintain a modern and effective financial system as the basis for our prosperity. Such a system is essential to provide funds and capital for our industries, channel investments to their most efficient use, offer high returns for the American people, and allow our financial services firms to compete effectively overseas.

Fourth, Treasury -- like other agencies with law enforcement responsibilities -- must work to improve its capacity to meet those responsibilities. Narcotics trafficking, money laundering, tax evasion, and other crimes all represent a threat to the rule of law in our society, and the economic progress that we work for.

Many of these issues are complex. While we have made progress over the last several years, much more must be done. Clearly, there will be some disagreement as to how best to achieve our aims. I strongly believe that it is very important to discuss key issues fully and openly.

In conclusion, let me say that the Treasury Department has a long and proud tradition of professionalism, integrity, and public service. If confirmed, I will do my utmost to maintain that tradition, by remaining fully responsive to the Congress, and serving Secretary Rubin and President Clinton to the best of my abilities. Let me offer you my personal assurance that I will continue to do everything in my power to work closely and cooperatively with the members of this Committee and all the members of Congress in the weeks and months ahead.

Thank you once again Mr. Chairman for bringing me before this Committee. Now I would be pleased to respond to any questions which you or the Committee may have.

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EMBARGOED UNTIL 8:00 AM EST
Text as Prepared for Delivery
March 10, 2000

DEPUTY TREASURY SECRETARY STUART E. EIZENSTAT REMARKS TO THE LEGG MASON WORKSHOP ON INVESTMENT PRECURSORS WASHINGTON, DC

I am happy to be here at your Workshop. Your work in the venture capital and the secondary markets, which are essential in translating innovation in information technology and telecommunications into actual businesses and your experience with the policy and regulatory issues that effect these industries, provide you with a deep sense of what telecommunications and the Internet can mean for the American economy. I share your enthusiasm for these increasingly important components of our economy.

Economists tell us that despite soaring sales figures and market valuations, the jury is still out on whether the Internet is merely a major new technology in one sector of the economy, such as the automobile or television were in an earlier time, or whether it indeed will change the world, as the Industrial Revolution did in the 19th century. In 1870, America's steam engines delivered 1.2 million horsepower to America's manufacturing firms. By 1939, sixty years later, the electric motors that replaced them gave factories 45 million horsepower—an increase in "muscle power" of forty times, or five per cent a year. In the forty years since electronic computers replaced electromechanical calculators, the number of computers has increased from 2,000 to 200 million worldwide, and there has been an increase in information processing power of one million times. This comes to 35 per cent a year.

The products and processes based on this computer power are changing the way we buy, the way we sell, how we communicate with one another, how we entertain ourselves and educate our children. They are making businesses far more efficient in the way they design, manufacture and market products. They are even changing the nature of what constitutes a product. We are moving from an economy in which the symbolic product was an ingot of iron, a barrel of oil or a bushel of grain to one in which the symbolic product is gene sequence, a line of computer code, or a logo. As Chairman Greenspan has often said, in such a world goods are increasingly valued for the knowledge that went into them rather than for their physical weight.

In this economy, information technology has been the largest single factor in the remarkable increase in productivity, which has given us a high rate of GDP growth with very

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low unemployment and low inflation. It has helped make the United States a high performance economy, powered by technology, driven by ideas, rewarding the value of innovation, flexibility and enterprise and attaining ever better living standards for its people.

Let me give you just one example. Between the end of World War II and the start of the 1990s, our economy went through eight recessions. In almost every case, when economists looked back with their analytic tools, they concluded these were what they called "inventory recessions. Business firms had overstocked. When they discovered this, they cut back on orders. This cut in spending rippled through the economy, reducing consumer spending, reducing investment, and forcing layoffs. The economy declined until firms decided to stock up on inventory again.

With information technology, companies can fine-tune their inventories through "just in time" purchasing and other techniques. Inventory recessions should be a thing of the past. This does not mean the business cycle has been repealed. There are other factors, including new ones, that could cause our economy to run aground. But it shows how technology has been instrumental, not just in creating new ways of living and new economic opportunities, but in solving some of the most persistent problems of our economy.

The movement of information technology to the center of the American economy came about in part because of the dynamism of the American financial system. In the 1980s, tough-minded economics, driven by investors who looked hard at the bottom line, forced our companies to restructure and reengineer years before those of other countries. This allowed them to emerge faster and stronger in their fields and, in the 1990s, to more readily adapt new technology as an integral part of their businesses. An open, flexible and extremely entrepreneurial venture capital sector has channeled needed funds to new industries. It was also the result of an outpouring of traditional American ingenuity. The number of patents granted to our inventors has increased over 140 per cent over the last decade, and now stands at over 150,000 a year. And it came about because an increasing number of workers have been willing to invest longer hours, acquire new skills and accept pay increases more in line with the success of their companies than ever before.

However, our ability to exploit these new opportunities depended critically on President Clinton and Vice President Gore's determination to stop a generation of public borrowing and forge a new national consensus around sound budget policy. Structural deficits give rise to vicious circles. They tend to lead to rising interest rates, and so to falling investment and slower growth, which reduce revenues further, increase deficits and start the cycle again. This is what we saw in the late 1980s and the early 1990s.

Surpluses generate a kind of virtuous circle of declining debt, increasing national savings, lower interest rates and rising growth and investment. American savers have had to absorb about $2 trillion less in government debt since 1993 than they would have if the budget projections made in that year had been realized. That is more than $2 trillion dollars available for new private investment in America's future. As a share of GNP, real investment today is higher than it has been at any time in the postwar period. We need to continue to exercise fiscal discipline, and retire debt, to keep the longest economic expansion in our history going strong.

The traits of the new economy will have other implications for public policy. For example, the "weightless" goods it produces usually have very high initial fixed costs and low, even zero marginal costs. It can be compared to publishing a book, cutting a record or marketing a new pharmaceutical product. In the new industries, success may have greater potential to become self-perpetuating, as growth leads to rapid declines in prices, and so to further expansion in the market and further growth.

Moreover, networks become increasingly important. The first fax machine could do very little. With one hundred fax machines, ten thousand connections are possible, and with ten million machines the possibilities are limitless.

For these reasons, we should strive to enlarge our markets—at home and internationally— as much as possible. Their development should not be slowed or distorted by unnecessary regulation. That is why we worked to pass the Telecommunications Act, and the right kind of Financial Modernization Act last year. That is why we are doing what we can to keep our own markets open to trade, and to open up the largest market in the world, China, by granting it Permanent Normal Trade Relations status and supporting its entry into the World Trade Organization.

It also points to increasing the size of our markets here at home, by making sure everyone is a part of this vibrant economy. Half a century ago, this meant ensuring that every home had electricity and running water and a telephone. It continues today in our work, through "First Accounts" and other initiatives, to ensure that every American has access to a bank account. This sounds like a small step, until you realize that in this age of the Internet, an estimated 15 per cent of U.S. households still do not have a bank account.

And the needs of the new economy surely make the case for public support for scientific innovation. It was the National Science Foundation and DARPA, just as much as the Bell Labs and Xerox PARC, that kept the infant Internet alive. We have increased our national science and technology budget for seven successive years. The 2001 budget commits an unprecedented $43 billion to science and technology research.

We cannot know what this new economy will look like a decade from now. What we can know is that we are enjoying a very special moment, a moment that confers a special responsibility on public policy to work to broaden the base of our prosperity, and minimize future risks.

Electronic Payments

I would like now to discuss two issues that are particularly within the purview of the Treasury Department: electronic payments and internet taxation. Despite the expansion of the Internet into so many areas, there is no legitimate option at this time for businesses to pay each other over the Internet. Most e-commerce shoppers use credit cards which involve a 2-6% expense to the seller. For shoppers, credit cards only work on line for certain classes of payments. A college student who successfully bids on this weekend's basketball tickets on eBay has to spend additional money to FedEx his check to the seller. According to one study, in 1999, consumers spent $19 billion on-line. But the amount they ordered off-line after doing their browsing on-line came to $103 billion.

In the physical world, parties can pay each other directly using cash and checks in a peer-to-per fashion. In the electronic world, existing payment mechanisms must be processed through central bank hubs and mainframes before payments or payment obligations can be delivered to a payee. One of the greatest attractions of the Internet is the way it makes possible person-to-person communication and commerce even where the people have no prior relationships and the geographic distance between them is great. Our current systems simply were not designed to support this type of dynamic commerce.

To narrow this gap, payments need to be accompanied by the kinds of documents that allow one to purchase, collect and store data electronically. We need an efficient, standards-based mechanism for exchanging information across different automated processes. Buyers, sellers and financial institutions also need to know with certainty that their orders were received and payments logged. Even E-mail still lacks much of the certainties traditional mail offers – guaranteed delivery, return receipts, guaranteed time-stamping, change of address information.

Because the Treasury Department handles 85% of the government's payments, we have focused our efforts on improving electronic payments. We have been quietly working on some revolutionary pilot programs to use the new technologies for this purpose. We have introduced smart cards that function as cash. At military training sites and at US bases in Bosnia, for example, soldiers now receive their pay on smart cards. Merchants on these sites are equipped with the tools to accept payments from the cards. As a result, Treasury's Financial Management Service is now the largest producer of financial smart cards in the country.

We are using electronic checks to pay some of our vendors. The Treasury creates an e-check on a PC, digitally signs it and securely emails it to a payee along with remittance information. The payee verifies the digital signature and strips off the remittance information. It then digitally endorses the check and e-mails it to its bank for deposit. The bank validates the endorsement digital signature and presents the items for payment to the bank on which it is drawn. Our partners in this test include banks, technology companies, DOD and major Defense vendors.

We are exploring the use of electronic cash. It allows transactions to be consummated instantly with no clearing or settlement and no involvement by a financial intermediary. The first use will be in buying computers on-line.

Introducing changes to the payments system is a long-term proposition and raises complex policy issues, but these pilots can teach us a great deal. The Treasury, along with FMS and the Bureau of the Public Debt will continue to build on our pilots through an "electronic per-to-peer payments" effort. We plan to share with industry the lessons we learn at a conference or another forum that will allow stakeholders to address barriers to financial e-commerce on the Internet. We shall also launch additional initiatives to help develop the tools and find the models that will bridge the internet payments gap.

Internet Taxation

The other issue is internet taxation. The Supreme Court decided, several years ago in the context of mail order sales, that it would impose an unconstitutional burden on interstate commerce for one state to ask a seller physically located in another state to collect a sales tax on its behalf. As a result, purchases made on the Internet, although in fact still subject to a tax (called a "use tax") in practice they enjoy virtual tax-free status because the seller is not obligated to collect the tax – as long as the seller does not have a physical presence such as a store or a warehouse in the purchaser's jurisdiction.

Many state and local government officials are increasingly concerned that if electronic commerce continues to grow exponentially, as it has been, the tax base that supports our schools, our police and firemen, and other essential services will be seriously undermined. Sales taxes currently account for one third of state and local tax collections. Main-street businesses are concerned about the unequal playing field – if a book bought in one of their stores is taxed while one bought on-line is not taxed in most cases it will grow increasingly difficult for them to compete. However, Internet businesses return to the issue of the burden that would be imposed if they were forced to collect sales taxes. They point out – and rightly so – that the enormous complexity of current state and local sales and use taxes would indeed make it excessively burdensome for a remote seller to have to collect taxes in multiple jurisdictions. The current network of sales taxes is so diverse and complicated-- there are over 6,000 separate taxing jurisdictions, each with its own definitions and rules.

The Internet Tax Freedom Act, passed in 1998, did not create these problems nor did it solve them. It attempted to solve a different set of problems. Internet businesses were increasingly concerned that states would see them as a new cash cow and would impose new, discriminatory taxes on the Net or might tax access to the Internet. The Internet Tax Freedom Act imposed a time-out on these new types of taxes on the Internet for a period of three years, which expires in October 2001.

The Administration opposes any kind of discriminatory taxation of the Internet. We support a permanent ban on taxes on access to the Internet. We also support a permanent moratorium on customs duties on electronic transmissions. We strongly support the growth of Internet commerce. We want to encourage people to go on line, not discourage them. This is important as we wish to eliminate the "Digital Divide" President Clinton has spoken of, where low income people are left out of the new economy, unable to gain the knowledge and acquire the skills they will need to improve their circumstances.

On the issue of taxing sales made on the Internet– as opposed to access to the Internet – the Internet Tax Freedom Act created a congressionally-appointed Commission which holds its last meeting in Dallas in just over a week. Discussions have been held in the context of the Commission that I hope have started to bridge the gap between the states and some members of the business community, helping each to see the valid aspects of the others arguments. But whatever the outcome of that Commission, it is clear that any answer -- short of repealing the sales tax and replacing it with another revenue stream to pay for police and education -- has to involve simplification of the current sales tax systems-- the same issue that the Supreme Court identified in its decision several years ago.

Fundamentally, the issue of how e-commerce will contribute to the building and maintenance of our 21st century public services and institutions is a critical one – and a delicate one. It must be settled through painstaking conversations between affected parties. We cannot rush to judgment on these complex issues.

Conclusion

The industries you invest in and work for will benefit from sound economic policies which strengthen and open markets for you in this country and around the world. We value your continued input on all these issues, and I appreciate the opportunity to speak to you today.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TREASURY SECRETARY LAWRENCE H. SUMMERS TESTIMONY BEFORE THE HOUSE APPROPRIATIONS SUBCOMITTEE ON TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT

Mr. Chairman, Congressman Hoyer, Members of this Committee, I appreciate this opportunity to discuss Treasury's FY2001 budget request and to seek to continue to work in the cooperative spirit that we and Members of the Committee have achieved. I would like to take this opportunity to thank this Committee for its impressive and productive work over the years.

As you know, Treasury plays a crucial role in the core functions of government, including tax administration, revenue collection, law enforcement, financial management, tax policy, banking policy and international and domestic economic policy.

We propose a budget that will enable Treasury to continue to provide the American public with the customer service and program reliability it expects and deserves.

Our budget request totals $14.245 billion for all operations. After taking into account two offsets - a $210 million fee on Customs' automated commercial system for the Automated Commercial Environment (ACE) and $42.5 million from the use of the estimated potential balance from the Treasury Forfeiture Fund - our appropriation level would be $13.992 billion.

We have provided the Committee with a detailed breakdown of Treasury's FY2001 budget request. Let me today highlight five important areas of focus

- First, supporting continued IRS modernization
- Second, strengthening our ability to fight drugs, violence and crime.
- Third, modernizing our trade systems
- Fourth, enhancing our financial management.
- And fifth, supporting management operations

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I. Continuing to modernize the IRS

In its new mission statement, the IRS has pledged to focus on two core priorities: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities, and apply the tax law with integrity and fairness to all."

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. This argument is no different to believing that businesses face a trade-off between quality and cost.

We have heard similar false choices posed through the years. To have effective tax administration, there must be both compliance and high-quality customer service. A trade off is neither necessary nor desirable.

Under the leadership of Commissioner Rossotti, the IRS has already made impressive progress towards meeting both these goals. But there is more to accomplish.

In particular we need resources to focus on three areas:

Continued support for organizational modernization

Until recently, IRS was organized along geographic lines. At the direction of Commissioner Rossotti, the IRS is reorganizing along customer lines. This enables the IRS to provide better service to groups of taxpayers with similar needs. This reorganization also enables the agency to become more effective and focused. For example, it will improve the agency's ability to clamp down on abuse of the tax code, including combating the growth of abusive corporate tax shelters.

The reorganization also involves building a modern management structure to enable the IRS to serve its customers better. This will involve significant re-training of staff because many are being asked to take on redefined roles. FY2001 provides the second year of major funding for the IRS reorganization. We strongly believe this restructuring effort is putting the agency on the right track. It is imperative that we support the employees and leadership at the IRS so they can complete this monumental task of reorganizing the IRS for the first time in almost 50 years.

Continued support for computer modernization

The IRS is embarking on a plan to replace its antiquated computer system to bring it into the new century. The IRS core data systems are fundamentally deficient. The Master File system, on which all taxpayer accounts reside, is based on outdated 1960s technology. Modernizing the agency's technology will enable it to deliver on its pledge to provide better customer service for all and is absolutely necessary for the agency to make the improvements that the public needs.

In our FY 2001 budget, we are asking for another deposit into the Information Technology Investment account (ITIA) to keep this program on track. The Committee has shown its support for this program in past years by making the needed deposits, and we ask you continue to support this critical program.

Stabilizing the IRS

The IRS is on the road toward modernizing its organizational structure and computer systems. For several reasons we feel the time is now right to reverse the decline in staff that has occurred at the agency over the last 5 years. First, no one anticipated the resources required to implement the very important provisions of the Restructuring and Reform Act. Second, recent articles have highlighted the decline in enforcement activity over the last few years -- a trend Commissioner Rossotti and I are particularly concerned about.

We feel the time is right to permit a modest expansion in IRS resources to ensure the integrity of the tax system, which depends heavily on maintaining voluntary compliance, and to provide the service the American taxpayers deserve. Our request provides 2,800 new positions, an increase of 2.9 percent over the next two fiscal years.

II. Strengthening our ability to fight drugs, violence, and other crimes

Our second focus today in on improving our capacity to fight drugs, violence and other crimes.

As this Committee knows, Treasury oversees six law enforcement bureaus, Customs, the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the IRS, FinCen, and the Federal Law Enforcement Training Center. Each of these has critical and extensive responsibilities.

Our FY2001 budget request enables Treasury agencies to continue to play a full role in the crucial anti-crime initiatives in which this Administration is engaged.

Mr. Chairman, last year you and others expressed concerns about the disparity of treatment between Treasury law enforcement and our Justice counterparts. This year's budget provides Treasury law enforcement with an 18 percent increase over the FY2000 budget. It recognizes the special law enforcement role that Treasury plays in the Administration's anti-crime strategy.

The proposals would result in the largest increase in Treasury law enforcement funding in more than a decade. Let me focus briefly on four key areas of this request.

Reducing Trafficking, Smuggling and Use of Illicit Drugs

Our request supports the Administration's counter-narcotics strategy by providing Treasury with resources critical to reducing the trafficking, smuggling, and use of illicit drugs across our borders.

The budget request supports Custom's responsibility to facilitate legitimate trade, while interdicting contraband through the use of enhanced technology and equipment. Customs remains committed to improving the efficiency and effectiveness of its drug interdiction.

Specifically, the budget request supports:

- Aircraft with upgraded interdiction and surveillance equipment.

- Non-intrusive inspection equipment for expanding interdiction efforts along the southwest border;

- And additional personnel and investigative equipment to support Customs Counter-drug Initiative. This will include new positions to implement the Foreign Narcotics Kingpin Designation Act and improve information gathering capabilities on terrorist funding and narcotics trafficking. Our FY2001 request builds upon last year's supplemental request.

Combating financial crimes and money laundering

Our budget request also supports Treasury's central role in the implementation of the Administration's National Money Laundering Strategy. Deputy Secretary Eizenstat and Deputy Attorney General Holder unveiled the 2000 Strategy this week. The Strategy is aimed at combating dirty money and, in doing so, giving us additional weapons to fight the underlying crimes.

Money laundering has a number of intolerable effects on the U.S. economy and on American society. It enables the criminal to invest the proceeds in the perpetuation of the underlying crime, many of which are violent and spread drug addiction in our communities. It taints the U.S. financial system and damages the reputation of those involved. And it undermines U.S. government programs to support democracy and economic development around the world.

Our request will enable us to support initiatives in zones designated as high-risk financial crime areas (HIFCA). The budget also supports Customs, IRS, and the Financial Crimes Enforcement Network (FinCEN) by providing them with resources to strengthen the fight against money laundering. It will also enable these agencies to respond to additional information gathered from the expanded reporting requirements for non-bank financial institutions.

Protecting Our Nation's Leaders

Few agencies are required to work under such pressure or meet such rapidly expanding demands as the Secret Service. The dramatic rise in global terrorism and a significant increase in the number of protectees has intensified the Secret Service's critical responsibility of protecting our nation's leaders.

We must address the increased workload of the Secret Service and the resultant decline in working conditions in order to retain members of this highly trained workforce and ensure their safety and the safety of their protectees. We are requesting 250 new positions in addition to the new positions in the FY 2000 appropriation.

The increased hiring by the Secret Service and ATF will result in a significant increase in the workload at the Federal Law Enforcement Training Center (FLETC). This budget provides funding to address this increase and continues implementation of FLETC's five-year Master Plan.

Reducing firearms violence

Mr. Chairman, we have all been deeply affected by a number of recent incidents that have focused attention on the level of armed crime in this country. There is a great deal of debate about the correct level of policy response. But, it is fair to say that there is now widespread agreement about the need to enforce existing laws to the fullest extent possible.

Our request will help us to build on existing efforts that fall within our firearms enforcement strategy, including the Integrated Violence Reduction Strategy (IVRS), the Youth Crime Gun Interdiction Initiative (YCGII), nationwide crime gun tracing, and the National Integrated Ballistics Information Network (NIBIN).

These, and other efforts, strongly supported by President Clinton, Vice-President Gore and this committee, have contributed to the sharp reduction in firearms violence in the last few years. With strong inter-agency support from the Department of Justice, our initiatives have also resulted in a clear rise in the number of firearms prosecutions, an increase of more than 12 percent between 1992 and 1999. But we can address more violations of firearms law. And we must reduce firearms violence further.

Our request strengthens our ability to achieve this national priority in four ways:

- First, providing funding for 300 new agents, 200 new inspectors and 151 new support staff at the bureau of Alcohol Tobacco and Firearms so that the agency can continue its crucial work of collaborating with state and local law enforcement agencies to reduce illegal acquisition, possession, misuse, and trafficking of firearms.

- Second, increasing the number of cities under the Youth Crime Gun Interdiction Initiative enforcement program by 12, bringing the total to 50.

- Third, strengthening the crime gun tracing system for law enforcement agencies nationwide, including equipment and training support for 250 state and local law enforcement agencies.

- And fourth, bolstering the Treasury and Justice Department's unified effort to provide automated ballistics imaging technology to Federal, State, and local law enforcement agencies.

In addition, Treasury has asked for funding to meet several other critical challenges. These include enforcement of laws against forced child labor, support for Secret Service and Customs efforts on counter-terrorism, and airspace security in support of special national events. The budget provides funding for these important responsibilities.

III. Modernizing our trade systems

Our third focus is on modernizing our trade systems. Like the IRS, Customs has experienced a significant increase in demand on its trade system, and the system is not able keep pace. Since the Customs Modernization Act was passed in 1993, the number of merchandise lines on customs formal entries has more than doubled. The Customs Service is required to cope with this sharp rise in trade with substantially the same outdated technology it had when the Act was passed. Given the critical role of Customs in handling enormous volumes of goods and in combating drug and other types of trafficking, it is important that be equipped with the best tools to fulfill these goals.

As I have indicated, Customs is not alone in having to work with antiquated technology. We have learned a great deal from the experience of the IRS and are applying these lessons to Customs. These lessons include forging a clear and well defined partnership with the private sector; adopting a systems life cycle discipline; and using an enterprise-wide blueprint and architecture to guide the integration of systems as they are developed.

Our request has two main elements:

- Additional resources to maintain the existing trade system, the Automated Commercial System, (ACS). The system is prone to outages or "brownouts", and it is important that we do what is necessary to minimize such disruptions.

- Begin work on a new system, the Automated Commercial Environment (ACE), that will eventually replace the ACS. This replacement is critical and will require a multi-million dollar investment over several years. We propose to establish a fee to fund the development of ACE and that the fee would appropriately capture some of the benefits that will accrue to private business from modernization. These include a streamlined cargo entry process, account-based transactions, and a paperless process. It is imperative to secure funding for this critical program. The Administration looks forward to working with Congress on the fee to ensure that funding is available in FY2001, and through the life of the program.

IV. Enhancing financial management

My fourth focus is on financial management. We have made important progress this year with respect to the nation's money. We have overseen the development of the new five and ten dollar bills that will start circulating in May. And we have seen what has so far been a very successful introduction of the new dollar coin.

At Treasury we believe it is essential to achieve the highest standards of financial management. The two bureaus of the Fiscal Service - the Financial Management Service (FMS) and the Bureau of the Public Debt (BPD) - provide core services in the areas of government payments, collections, government-wide accounting and reporting, collection of delinquent debt, and Federal Government financing.

These are vital functions that enable Congress and the American public to have confidence in the ability of the U.S. government to keep a detailed and accurate account of public finances and to manage its finances professionally. This year, the Bureau of Public Debt carried out a new mission of buying back debt as a complement to its more traditional mission of issuing debt.

Owing to the excellent stewardship of the fiscal bureaus - including redirection of base resources and reinvestment of productivity savings for investment in state-of-the-art electronic commerce technologies - the budget proposals for the FMS and BPD are comparable to last year's requests.

Let me briefly in this context mention the budget request for the President's "First Accounts" initiative that aims to "Bank the Unbanked". To help fulfill the goals of this initiative, we will use Treasury's financial expertise to encourage low-income families who do not receive Federal benefits to open bank accounts.

Between 10 and 20 percent of our population lacks access to bank accounts and can pay up to $15,000 over a lifetime for routine transactions such as cashing a check or paying a bill. This is something that we have started to address through the EFT and ETA programs for those who receive Federal benefit payments. We believe it is important to work with the private sector to extend this opportunity to those who do not benefit from Federal payments.

Let me also briefly report on the progress of the Community Adjustment and Investment Program. The is the domestic window of the North American Development Bank but receives its own appropriation entirely independent from NAD Bank funding. The CAIP has been particularly effective in helping to create and sustain jobs in communities experiencing temporary job dislocation attributable to changing trade patterns related to NAFTA. To date, CAIP financing has helped to create and sustain over 7000 jobs by facilitating more than $225 million in direct loans, loan guarantees and grants to businesses, workers, and communities. I urge you to support this year's funding request for the CAIP.

V. Maintaining Management Operations

Our final area of priority is maintaining support for management operations. Departmental Offices provides the programmatic oversight and technical support essential to the Secretary's leadership role in law enforcement, revenue collection, international and domestic economic and tax policy, and financial management. The budget supports these functions with:

- Increases for core infrastructure operations, including technology upgrades that support Treasury's leadership role on economic issues.

- Essential resources required in Domestic Finance to oversee implementation of the recently enacted Financial Modernization Act, the most sweeping change in the regulation and management of financial institutions since the 1930s.

- Continued funding for the multi-year program to repair and restore the historic Main Treasury Building and Annex begun in December 1998.

In addition, our request supports four major projects: the Human Resources Information System; Integrated Treasury Network, Critical Infrastructure Protection, including the banking and finance sector; and the Public Key Infrastructure pilots.

The budget also strengthens the audit and investigative efforts of the Office of Inspector General and enhances the capacity of the Treasury Inspector General for Tax Administration to conduct mandated and discretionary reviews of IRS operations.

Let me also in this context raise one particular concern at Treasury. We have always sought to recruit the brightest and the best so that Treasury can provide the highest quality service to American taxpayers. But the salaries we are able to offer graduates are increasingly outmatched by those offered by the U.S. Federal Reserve while the gap with the private sector is widening.

Let me give you a specific example from my own field of economics. A talented graduating PhD economist can get a starting salary of between $51,000 and $66,000 from the Treasury Department compared to a minimum starting salary of $80,000 from the Federal Reserve. And in the private sector, economics PHDs are often paid more than twice the starting salary of Treasury. While it is not appropriate for the Federal government to match the best offers from the private sector, our current constraints are troubling.

While we are working closely with the Office of Personnel Management to find solutions to this problem, and we are improving the delivery of recruitment bonuses and looking at introducing pay banding, there is a limit to the results we can achieve using existing flexibilities without new legislation. At some stage we will also require new resources if we are to continue to attract the level of talent required to maintain the highest standards of excellence at Treasury.

VI. Conclusion

Mr. Chairman, let me conclude on a personal note. Since becoming Treasury Secretary last year, and in the seven years that I have worked in this department, I have been deeply impressed by the intelligence, professionalism and dedication of the people with whom I have worked. I am sure this Committee shares my confidence in the uses that are being made of taxpayer's funds. In that spirit, I ask that you approve our FY 2001 budget request to support the work of the Treasury Department in fulfilling its wide range of responsibilities in serving the American people. Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TREASURY ASSISTANT SECRETARY (INTERNATIONAL AFFAIRS) EDWIN M. TRUMAN TESTIMONY BEFORE THE U.S. TRADE DEFICIT REVIEW COMMISSION

Introduction

Mr. Chairman, thank you for the opportunity to testify before you on the important issues that this Commission is considering. You asked me to discuss the ability of the U.S. economy to absorb the recent, large increases in our trade and current account deficits, and whether they will affect our continuing, record-setting prosperity.

With the widening of the trade and current account deficits, it is natural that there should be increasing questions raised about their effects. The Administration is closely monitoring and analyzing them. In my judgment, much of the recent discussion tends to overemphasize the possible adverse consequences. As my colleague Robert Lawrence stressed in his testimony before you, not all current account deficits are created equal. The rise in U.S. imports has played an important role in keeping price pressures contained during the expansion. In addition, the net capital inflows have helped finance large increases in private investment. This investment has helped put in place new technologies that will help increase future growth, future labor productivity, and living standards. It is important to note that the recent widening of our external deficits has been associated with strong growth in U.S. employment and output. That widening has not been caused by a decline in U.S. competitiveness. On the contrary, productivity growth has accelerated. Between 1973 and 1995, it grew at an annual rate of 1.5 percent per year. From 1995 to the present, growth increased to 2.9 percent per year, and in 1999, growth was even higher still, at 3.6 percent. Performance in the manufacturing sector has been equally impressive; in 1999, manufacturing productivity grew 6.9 percent, the fastest pace on record, and unit labor costs have declined 6.9 percent since the third quarter of 1993.

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The basic consensus is that our widening current account deficit has been largely caused by two factors: the gap in growth between the United States and the rest of world, and forces causing an acceleration in U.S. private investment that was not matched by increases in U.S. national saving. The fiscal move from deficits to substantial surpluses has helped support U.S. national saving, but the continuing low rate of U.S. personal saving has exacerbated this latter shortfall.

Restoring Balanced Patterns of Growth

The gap between U.S. and foreign growth was at its widest during the fourth quarter of 1998, when the U.S. growth rate was approximately 3½ percentage points higher than foreign growth, due to recessions and slow growth in Asia, South America, Europe, and Japan. While this gap has begun to narrow, several quarters of rapid U.S. growth and slow global growth have resulted in stagnant export growth. By the second quarter of 1999, U.S. exports of goods and services were still $456 million *lower* than two years before. Exports to emerging market economies account for 44 percent of our total exports. The Asian financial crisis and its spillovers severely disrupted our export markets. It is for that reason that we have supported financing packages with strong reform components for the crisis-affected countries; those efforts have been successful in helping to restore growth. With the resumption of global growth, exports in the second half of 1999 increased at a seasonally adjusted annual rate of 3.6 percent in the third quarter and 3.0 percent in the fourth. During the period of relatively weak U.S. export growth, imports continued to grow at traditional rates, supporting global growth. As a result, imports in the second quarter of 1999 were 16 percent higher than in the second quarter of 1997 -- an increase of $41 billion.

To close this gap in growth and restore a more balanced distribution of growth, we have been urging our trading partners to stimulate their growth, inter alia, through economic reforms to increase flexibility and openness. In particular, we have focused on Europe and Japan. As Secretary Summers recently stressed:

> "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... [Instead,] 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."

Europe has, in recent years, taken some steps toward a more dynamic economy with the development of the single market and introduction of the Euro. Additional structural reform is required, especially in their labor market. Such reforms can have tangible results. In the four European countries that have moved furthest with structural reforms (Denmark, Ireland, Netherlands, and United Kingdom), real fixed investment in the 1990s has risen between three and ten times faster than for the EU as a whole.

Similar structural challenges are presented on a larger scale in Japan. Steps have been taken to reverse the poor economic performance of recent years. 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. Successful structural change will also depend on the maintenance of a supportive macroeconomic policy environment; private sector estimates from *Consensus Economics* suggest that the Japanese economy will grow less than one percent this year.

Restoring the Balance in U.S. Saving and Investment

While a substantial portion of our current account deficit reflects weak foreign growth, the deficit also reflects the strength of recent, rapid increases in private U.S. investment that has not been matched by domestic saving. As a result, we have had to "import" foreign savings. This shortfall reflects long-term trends in U.S. personal saving. During the 1980s and early 1990s, net national saving fell steadily, from a high of nearly 10 percent of GDP in 1979 to a low of approximately 3 percent of GDP in 1993. More recently, net national saving has risen substantially and has recovered to 6.5 percent of GDP, thanks to our dramatically improved fiscal stance as a consequence of the budgetary discipline applied by the President and Congress. However, continuing declines in personal saving rates have resulted in a leveling off of this trend, while investment has continued to increase.

At the same time, foreign investors have found the United States a relatively attractive place to invest, so foreign inflows have taken the place of domestic saving. Expected returns have been high, the economy healthy, and productivity has risen remarkably. U.S. macroeconomic policies are fundamentally sound, and the U.S. economy is one of the most flexible and open economies in the world. As a result, returns are higher in the United States than in many other destinations for capital. A recent McKinsey report showed that the relative returns to financial investments in the United States are 20 to 25 percent higher than in Japan or Germany. It is this difference in relative returns that has helped to attract strong capital inflows to the United States in recent years.

The United States remains an attractive place to invest, but we face the task of increasing national saving and remaining open to competition and market forces. The federal government can set a good example by maintaining fiscal discipline and continuing to run budget surpluses. We must also keep our markets open. Attempts to close our markets are likely to backfire and damage the high level of confidence foreign investors have in the U.S. economy.

Financing the Current Account Deficit

As our current account deficit expands, so too have concerns by some about our ability to finance it smoothly. By the third quarter of 1999, the deficit reached $360 billion, or 3.9 percent of GDP, at an annualized rate. Some recent forecasts, such as *Consensus Economics*, place the 2000 deficit above $400 billion. As Chairman Greenspan indicated in his recent Humphrey-Hawkins testimony:

> "Growing net imports and a widening current account deficit require ever larger portfolio and direct foreign investments in the United States, an outcome that cannot continue without limit."

It is helpful, however, to put the current account deficit and the counterpart net capital inflows, in perspective. For the first three-quarters of 1999, the deficit represented the difference between current account receipts of $1.2 trillion and payments of $1.5 trillion, both at annual rates. During the same period, recorded capital inflows were $760 billion at an annual rate and recorded outflows were $362 billion. On a gross basis, total U.S international capital transactions are considerably higher -- totaling $12 to 13 trillion for the first three-quarters of 1999 on an annual basis. These transactions reflect movements and reallocations in investor portfolios as well as new investment. As long as we maintain sound economic policies and open and flexible labor, capital, and goods markets, global financial markets can reasonably be expected to cover the gap between our investment and saving smoothly, and we need not be overly concerned about the financial counterpart of our current account deficit.

In addition to promoting sound economic polices in the United States and encouraging reforms to help restore domestic demand-led growth abroad, a crucial component of our approach to the trade deficit is the opening up of foreign markets to U.S. goods and services. To this end, as you heard from Richard Fisher, the Clinton Administration has completed nearly 300 separate trade agreements - some sectoral and others, like NAFTA, more broadly based. One of our highest priorities this year is to work closely with Congress to secure Normal Trade Relations with China in connection with China's entry into the WTO, which we believe is strongly in our national interest.

Some have pointed to the service sector as an untapped potential for U.S. exports. At the Treasury Department, we have focused our efforts on liberalizing trade in financial services, where American financial institutions are recognized as world leaders in product innovation and management. For foreign economies, financial liberalization can lower the costs of capital to their companies and citizens while inviting in highly capitalized firms that raise the standards of financial practices domestically, and many countries have recognized these benefits. One hundred and seven countries have made financial services commitments under the World Trade Organization, by far the most of any services sector. We intend to broaden and deepen these commitments as part of the GATS (General Agreement on Trade in Services) 2000 negotiations, which are now getting underway in Geneva.

Conclusion

Let me summarize my remarks. In order to reduce our current account deficit over time, which is desirable, other countries must do their part to restore robust global growth, and we must increase our national savings rate. A return to a more balanced pattern of global growth should help to relieve pressure on the U.S. current account. It is far better to achieve adjustment through faster growth abroad than low growth in the United States. In addition, our economy's flexibility has helped us prosper over most of the past decade; this flexibility should also help boost our saving and ease the transition to lower trade and current account deficits in the future.

Thank you for your attention. I will be pleased to respond to your questions.

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FOR IMMEDIATE RELEASE
March 13, 2000

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TREASURY DEPARTMENT ANNOUNCES RULE ON NEW FINANCIAL ACTIVITIES

The U.S. Treasury Department announced on Monday an interim final rule for national banks to request the Treasury Secretary to designate activities as new financial activities.

The Financial Modernization Act authorizes financial holding companies and financial subsidiaries of national banks to engage in activities that are financial in nature or incidental to financial activities. The Act also authorizes the Secretary of the Treasury and the Federal Reserve Board (for national banks and financial holding companies, respectively) to designate, in consultation with one another, additional activities as financial in nature or incidental to a financial activity.

The interim final rule outlines the procedures by which the Treasury Secretary designates an activity as financial in nature. The rule explains the consultation process with the Federal Reserve Board and indicates that the Secretary may request public comment on whether an activity should be considered financial in nature or incidental to a financial activity.

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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
arch 13, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 16, 2000
Maturity Date:	June 15, 2000
CUSIP Number:	912795EA5

High Rate: 5.730% Investment Rate 1/: 5.893% Price: 98.552

All noncompetitive and successful competitive bidders were awarded
curities at the high rate. Tenders at the high discount rate were
lotted 82%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,012,812	$ 6,843,419
Noncompetitive	1,341,540	1,341,540
PUBLIC SUBTOTAL	29,354,352	8,184,959 2/
Foreign Official Refunded	345,000	345,000
SUBTOTAL	29,699,352	8,529,959
Federal Reserve	4,219,310	4,219,310
Foreign Official Add-On	0	0
TOTAL	$ 33,918,662	$ 12,749,269

Median rate 5.715%: 50% of the amount of accepted competitive tenders
s tendered at or below that rate. Low rate 5.680%: 5% of the amount
accepted competitive tenders was tendered at or below that rate.

d-to-Cover Ratio = 29,354,352 / 8,184,959 = 3.59

Equivalent coupon-issue yield.
Awards to TREASURY DIRECT = $1,038,142,000

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
March 13, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term: 182-Day Bill
Issue Date: March 16, 2000
Maturity Date: September 14, 2000
CUSIP Number: 912795EF4

High Rate: 5.860% Investment Rate 1/: 6.124% Price: 97.037

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 58%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 19,391,012	$ 3,758,712
Noncompetitive	1,130,246	1,130,246
PUBLIC SUBTOTAL	20,521,258	4,888,958 2/
Foreign Official Refunded	2,620,000	2,620,000
SUBTOTAL	23,141,258	7,508,958
Federal Reserve	3,390,000	3,390,000
Foreign Official Add-On	0	0
TOTAL	$ 26,531,258	$ 10,898,958

Median rate 5.850%: 50% of the amount of accepted competitive tenders 'as tendered at or below that rate. Low rate 5.800%: 5% of the amount ›f accepted competitive tenders was tendered at or below that rate.

·id-to-Cover Ratio = 20,521,258 / 4,888,958 = 4.20

/ Equivalent coupon-issue yield.
/ Awards to TREASURY DIRECT = $829,928,000

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

EMBARGOED UNTIL 9:00 A.M.
March 14, 2000

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT: Bill Buck
202-622-1997

TREASURY ANNOUNCES DEBT BUYBACK OPERATION

On March 16, 2000, the Treasury will buy back up to $1,000 million par of its outstanding issues that mature between May 2018 and November 2021. Treasury reserves the right to accept less than the announced amount.

This debt buyback (redemption) operation will be conducted by Treasury's Fiscal Agent, the Federal Reserve Bank of New York, using its Open Market operations system. Only institutions that the Federal Reserve Bank of New York has approved to conduct Open Market transactions may submit offers on behalf of themselves and their customers. Offers at the highest accepted price for a particular issue may be accepted on a prorated basis, rounded up to the next $100,000. As a result of this rounding, the Treasury may buy back an amount slightly larger than the one announced above.

This debt buyback operation is governed by the terms and conditions set forth in 31 CFR Part 375 and this announcement.

The debt buyback operation regulations are available on the Bureau of the Public Debt's website at www.publicdebt.treas.gov.

Details about the operation and each of the eligible issues are given in the attached highlights.

oOo

Attachment

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HIGHLIGHTS OF TREASURY DEBT BUYBACK OPERATION

March 14, 2000

Par amount to be bought back ....Up to $1,000 million
Operation date ....March 16, 2000
Operation close time ....11:00 a.m. Eastern Standard time
Settlement date ....March 20, 2000
Minimum par offer amount $100,000
Multiples of par $100,000
Format for offers .....Expressed in terms of price per $100 of par with three decimals. The first two decimals represent fractional 32nds of a dollar. The third decimal represents eighths of a 32nd of a dollar, and must be a 0, 2, 4, or 6.
Delivery instructions ....ABA Number 021001208 FRB NYC/CUST

Treasury issues eligible for debt buyback operation (in millions):

Coupon Rate (%)	Maturity Date	CUSIP Number	Par Amount Outstanding*	Par Amount Privately Held*	Par Amount Held as STRIPS*
9.125	05/15/2018	912810 EA 2	8,709	7,478	5,675
9.000	11/15/2018	912810 EB 0	9,033	8,494	5,329
8.875	02/15/2019	912810 EC 8	19,251	17,566	7,920
8.125	08/15/2019	912810 ED 6	20,214	18,373	913
8.500	02/15/2020	912810 EE 4	10,229	8,868	2,037
8.750	05/15/2020	912810 EF 1	10,159	8,765	6,710
8.750	08/15/2020	912810 EG 9	21,419	19,891	12,093
7.875	02/15/2021	912810 EH 7	11,113	10,273	1,099
8.125	05/15/2021	912810 EJ 3	11,959	10,644	4,858
8.125	08/15/2021	912810 EK 0	12,163	10,603	2,306
8.000	11/15/2021	912810 EL 8	32,798	29,936	19,394
		Total	167,047	150,891	68,334

* Par amounts are as of March 10, 2000

The difference between the par amount outstanding and the par amount privately held is the par amount of those issues held by the Federal Reserve System.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 12:30 EST
Text as Prepared for Delivery
March 14, 2000

"THE CASE FOR NORMAL TRADE RELATIONS WITH CHINA"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO THE ELECTRONICS INDUSTRY ASSOCIATION
WASHINGTON, DC

Thank you. I would like to focus my remarks today on the case for granting Permanent Normal Trading Relations (PNTR) to China.

There are many ways to make the case for granting permanently to the largest country in the world the access to our markets that it enjoys more conditionally today. But let me start by emphasizing one crucial point: these arguments have very little to do with helping China – and everything to do with promoting America's core interests.

Last fall, the United States signed a bilateral agreement with China to bring it into the World Trade Organization, on terms that will open its markets to American products and investment. After China completes its agreements with other countries, it will join the WTO. But for us to enjoy the benefits of its entry we must first grant it the same permanent normal trading status that we have already granted to every other country with whom we share the benefits of the WTO.

The President submitted to Congress last week legislation that would achieve this. I will discuss in a few moments the concrete commercial advantages for the United States of passing this bill. I believe they are enormous. But let me be clear. Even if these advantages were very small, it would be in our interest to take this step, because the agreement with China is quite simply a one-way street.

- This vote is not about whether China will enter the WTO: it will become a member either way.
- It is not about whether Chinese producers will have access to our market: they will continue to be able to sell their goods in the United States whether or not Congress passes PNTR.

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- It is not about whether we approve or disapprove of China's human rights record: we will continue to condemn it in the United Nations Human Rights Commission and other fora, either way.

- It is not about China's policies toward Taiwan or other strategic issues that concern us: we will continue to insist on peaceful resolution of differences between the PRC and Taiwan, and to press China to respect global norms of conduct in nuclear nonproliferation and other areas, either way.

There is no disadvantage to the United States in passing this legislation. We will continue to press our full agenda with China regardless of how Congress votes. And China will open its markets to other members of the WTO when it joins the system. All that PNTR does is ensure that America enjoys the benefits that every other country will obtain.

There are, however, three crucial advantages to the United States in passing this bill:

- First, there are the direct and commercial benefits of the market opening agreement that we concluded last fall.

- Second, there are the economic and broader benefits to the United States of promoting economic and social change in China.

- Third, there is the ultimate enhancement of America's national security interests that comes from integrating China more closely with the community of nations

I. The Commercial Benefits to the United States of Granting PNTR

By passing PNTR we will be agreeing to continue to grant China the same access to our markets that its producers currently enjoy. What we will get in return – as a result of the agreement we concluded last fall – is unprecedented new access to what could ultimately become the largest market in the world.

With this deal in force:

- Chinese tariffs will fall by 50 percent or more in the space of five years, and other import barriers either eliminated or greatly reduced, in a wide range of sectors that are important to the United States. For example:

  - Tariffs in the automobile sector will fall from 80-100 percent to 25 percent by mid-2006, with the largest cuts in the first years after WTO accession. Auto quotas will be phased out. And American auto companies will be allowed to provide auto financing for the first time.

  - China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on computers, semi-conductors and other high-tech products.

- Tariffs on the broad range of agricultural goods will fall by roughly one half, with larger cuts for US priority goods. And Chinese export subsidies on agricultural goods will be eliminated.

- China would phase out a wide range of restrictions in a broad range of services, including distribution, banking, insurance, telecommunications and professional services such as accountancy and legal consulting. Instead of having to produce in China and sell through a state-sponsored middleman, over the course of the next three years American businesses will win the right to distribute goods directly – goods that are made here at home.

- We would also acquire special safeguards in the WTO against dumping and surges in imports from China, along with other key protections with respect to forced technology transfer requirements and the practices of state-owned-enterprises. These provisions will ensure that American businesses and workers have strong formal protection against unfair trading practices in China going forward. No WTO accession agreement has ever contained stronger measures to guarantee fair trade and to address practices that distort trade and investment.

To those who are concerned that these commitments by China will not be honored, let me assure you that we are already preparing for the most intensive enforcement effort ever mounted for a single trade agreement. Such concerns cannot be a reason to reject an agreement that will allow us to use global enforcement mechanisms of the WTO to keep China to its word. Some of China's most important decisions will for the first time be subject to international review, with rules and binding mechanisms for resolving disputes.

In these and other ways, the concessions involved in this agreement are all on China's side. All that it requires is we pass PNTR – so that these new markets do not flow instead to other countries.

II. America's Stake in Promoting Successful Market Reform in China

I have spoken of the direct commercial advantages of this agreement. But there are also crucial indirect advantages for the United States in helping to promote the path of Chinese reform.

China has come a long way since the beginnings of market reforms a little over 20 years ago. Its economy has grown by more than 350 percent in real terms. It has risen to being 11th largest trading nation in the world. And the number of Chinese with access to a television has risen one hundred-fold, to one billion.

And yet, in part as a result of the government's partial approach to reform, China's economy and society are also showing increasing signs of strain:

- The financial sector is mired in debts, but is still making the majority of its loans to a loss-making state-owned enterprise sector that accounts for only around one third of economic output.

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

- And the country still suffers from poorly developed market institutions and the lack of a reliable rule of law. These pose a growing burden at a time of enormous economic and social change. Smuggling and corruption, drugs and arms trafficking all pose a rising threat.

As the President has said, as they confront these problems, the Chinese authorities face a dilemma: they realize that closer integration with the global economy risks unleashing forces that they cannot control. Notably, opening China more fully to the revolution in communications and technology will provide ordinary Chinese with unprecedented freedom and access to information – access that experience suggests that China will not long be able to control. But the government also knows that without competition and integration, China will not be able to attract the investment and know-how that it needs to build a modern economy and deliver rising living standards and stability to its 1.3 billion people.

It is a lesson of the history of international trade agreements since the start of the GATT that the greatest benefits come not from the concessions that you receive from other nations but from the concessions that you make. In choosing to sign this agreement and enter the WTO, China is locking into place a more rapid process of market opening and reform of its economy. And it is submitting itself to a global rules-based system, based on core standards such as transparency and checks on arbitrary government action.

We have an enormous economic and broader stake in supporting that decision.

- Because it will help strengthen the hand of economic reformers in China, and make it more difficult for others to seek to turn back the clock. The growth of the private sector could then play a vital role in absorbing workers that are being laid off from inefficient state-owned firms.

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

- And we have an enormous stake in supporting that decision because it will provide a catalyst for broader changes that will help to promote core American interests and values. As competition and integration proceed, China will need to become more market-based; more protective of personal and commercial freedoms, and more open to the free flow of information and ideas.

Already, we are seeing these positive effects in renewed commitment to reform at the highest levels of the Chinese leadership that is expressly linked to the need to prepare the economy for tougher competition from the outside world. For example:

- The government has stepped up efforts to promote the development of private firms, the most dynamic sector of China's economy, by eliminating heavy deposit requirements and other regulations which discriminate against them and allowing them to list themselves on the stock market for the first time.

- PBOC Governor Dai has pledged to intensify efforts to clean up bad loans within the banking sector and to enhance competition among banks by permitting more flexible interest rates. A regulatory overhaul is underway to level the playing field between foreign and domestic firms in line with WTO commitments.

- As the Wall Street Journal reported only yesterday, even parts of the economy that the Chinese consider strategically important are being opened up to the private sector, with individual investors already dominating the Chinese Internet industry and being allowed take ownership stakes in domestic banks for the first time.

III. The Broader National Strategic Case for Supporting Greater Integration of China

Finally, a policy of welcoming China into the community of nations – rather than being a voice that keeps China out, even when it commits to live by the rules – is a policy that supports our deepest national security interests.

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

That this has so far been achieved with the minimum of conflict, despite the pervasive rivalries between the peoples of Asian nations, is a reflection of the progress that has been made across the region toward openness and integration. And it speaks to the success of postwar international institutions in helping to cement that progress. But if the next quarter century in Asia is to be as successful as the last it will be crucial that China define its greatness in a constructive way and that it fit into the global economic system.

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

This is a policy based not on mutual affection but mutual respect. As I said at the beginning, we can and will continue to express our differences with China both forthrightly and consistently. What we must not do is seek to cut China off from the economic and broader forces that are most likely to change it in the right direction.

At bottom, we believe that in a 21st century global economy China will increasingly have to recognize that to maintain stability and growth at home, it must meet, rather than stifle, the growing demands of its people for openness and accountability. As the President has said, simply bringing China into the WTO does not guarantee that its government will take this course. But it will force the authorities to confront that choice sooner, and it will make stronger and more visible the imperative to make the right choice.

By supporting China's entry into the WTO we have already paved the way for an historic change in China's relations with the broader global economy. All that remains is for us to grant PNTR to China so that American businesses, workers and farmers can enjoy the benefits. I do not believe that this should be a difficult step for the United States to take. Thank you.

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TREASURY NEWS

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DEPARTMENT OF THE TREASURY

FOR IMMEDIATE RELEASE
March 14, 2000

Contact: Dave Skidmore
Federal Reserve
(202) 452-2955

Bill Buck
Treasury
(202) 622-2960

FEDERAL RESERVE AND TREASURY DEPARTMENT ANNOUNCE INTERIM RULE ON ALTERNATIVE TO RATED DEBT REQUIREMENT FOR FINANCIAL SUBSIDIARIES

The Federal Reserve Board and the Secretary of the Treasury today announced their approval of an interim rule, effective March 14, 2000, establishing alternative criteria for debt ratings that certain large banks may satisfy in order to establish a financial subsidiary under the Financial Modernization Act.

Under the act, a national or state member bank ranked among the largest 50 insured banks may control a financial subsidiary only if the bank meets certain criteria, including having an issue of highly rated debt outstanding. The next 50 largest insured banks may control a financial subsidiary if they satisfy this debt rating requirement or an alternative requirement determined by Treasury and the Federal Reserve. Under the interim rule, a bank meets the alternative requirement if it has a current long-term issuer credit rating from a nationally recognized statistical rating organization that is within the three highest investment-grade rating categories used by the rating organization.

Comments will be accepted on the interim rule until May 15, 2000.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the week ending March 10, 2000.

As indicated in this table, U.S. reserve assets totaled $69,979 million as of March 10, 2000, up from $69,616 million as of March 3, 2000.

(in US millions)

I. Official U.S. Reserve Assets		March 3, 2000			March 10, 2000		
	TOTAL		69,616			69,979	
		Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]							
a. Securities		4,861	5,955	10,816	4,893	6,040	10,933
Of which, issuer headquartered in the U.S.				0			0
b. Total deposits with:							
b.i. Other central banks and BIS		8,346	11,526	19,872	8,386	11,693	20,079
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]				17,598			*17,622*
3. Special Drawing Rights (SDRs) [2]				10,282			*10,296*
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 March 3, 2000 are final. Data for SDR holdings and the reserve position in the IMF shown as of March 10, 2000 (in italics) reflect preliminary adjustments by the Treasury to the March 3, 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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U.S. International Reserve Position (cont'd)

II. Predetermined Short-Term Drains on Foreign Currency Assets	March 3, 2000	March 10, 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	March 3, 2000	March 10, 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		

Offical Reserve Assets Worksheet
(actual US dollar amounts)

	Last Week	This Week		
Enter Dates Here	3-Mar-00	10-Mar-00		
			Change	
Foreign Currency	3-Mar-00	10-Mar-00		Source: NY Fed
Euro Securities	$4,860,885,351.16	$4,892,923,766.39	32,038,415.23	
Yen Securities	$5,954,824,833.02	$6,040,307,462.12	85,482,629.10	
Sec. Total	*$10,815,710,184.18*	*$10,933,231,228.51*	117,521,044.33	
Euro Deposits	$8,345,626,087.70	$8,386,410,053.61	40,783,965.91	
Yen Deposits	$11,526,408,101.85	$11,692,624,875.64	166,216,773.79	
Deposit Total	*$19,872,034,189.55*	*$20,079,034,929.25*	207,000,739.70	
Total	$30,687,744,373.73	$31,012,266,157.76	324,521,784.03	
Euro Rate	*$0.9618*	*$0.9659*		
Yen Rate	*Y 107.80*	*Y 106.27*		
IMF	3-Mar-00	10-Mar-00		Source: IMF (fax)
		(prelim, with adjust.)		
Reserve Tranche	17,597,686,292.27	17,622,172,781.31	24,486,489.04	
GAB	0.00	0.00	0.00	
NAB	0.00	0.00	0.00	
Total	17,597,686,292.27	17,622,172,781.31	24,486,489.04	
SDR	10,282,185,876.40	10,296,493,133.94	14,307,257.54	
			0.00	
as of 1/31/00	3-Mar-00	10-Mar-00		Source: FMS (monthly statement)
Gold	11,048,272,032.71	11,048,272,032.71		
			0	
	3-Mar-00	10-Mar-00		Source: (?)
Other Res.Assets	0	0	363,315,530.61	
TOTAL	**69,615,888,575.11**	**69,979,204,105.72**		

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

Prelim. IMF Data	**IN SDRs**			**SDR rate for**	
Calculation Section	**3-Mar-00**	**Adjustments**		**10-Mar-00**	**In USD**
Reserve Tranche	13,133,100,487		13,133,100,487	*0.74526*	$17,622,172,781.31
GAB	0		0		$0.00
NAB	0		0		$0.00
			13,133,100,487	Total =	$17,622,172,781.31
SDRs	7,673,564,473		7,673,564,473	SDRs =	$10,296,493,133.94

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TREASURY NEWS

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For Immediate Release
March 15, 2000

Contact: Public Affairs
(202) 622-2960

TREASURY CONVENES IDENTITY THEFT SUMMIT

Treasury Secretary Lawrence H. Summers convened a two-day National Summit on Identity Theft today and announced four new initiatives targeted at cracking down on the increasing threat of identity theft.

"Criminals are exploiting new technologies to make a significant profit from an old crime," said Treasury Secretary Summers. "We will continue to work with the private sector to strengthen our efforts to combat this threat."

Called for last year by President Clinton, the Summit will address the prevention of identity theft, remediation and enforcement efforts with the public and private sector. The Summit will consist of a series of panels and more than 150 participants from federal, state and local government agencies, financial institutions, credit card companies and reporting agencies, as well as identity theft victims, consumer advocacy groups and private sector representatives.

The four new Treasury initiatives to help combat identity theft include:

- Skimming and counterfeit check databases currently used to identify common suspects, defendants of identity theft, and address criminal trends prevalent in financial crimes today. These databases were developed and are maintained by the U.S. Secret Service in partnership with the financial industry;

- A computer-based training module developed by the U.S. Secret Service that will focus on financial crimes and all pertinent statutes including identity theft, and be made available within the agency as well as local and state law enforcement officials throughout the U.S.;

- A pilot program, developed by the U.S. Secret Service and Citicorp, to help identify suspicious activity on electronic commerce. The program will attempt to develop a protocol for the identification of identity theft and other schemes used to commit bank fraud, credit fraud and money laundering within electronic commerce and the immediate notification of law enforcement authorities; and

- Forums and mini-conferences to maintain a dialogue between the private and public sector.

Treasury's National Summit on Identity Theft is the first national level conference involving law enforcement, victims, industry and nonprofits interested in the issue.

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EMBARGOED UNTIL 6:45 PM EST
Text as Prepared for Delivery
March 15, 2000

"ELECTRONIC COMMERCE AND FINANCE"
TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE GARY GENSLER
REMARKS TO THE BANK AND FINANCIAL ANALYSTS ASSOCIATION
NEW YORK, NY

Good evening and thank you for inviting me to speak here tonight. I'm pleased to have the opportunity to talk about how technology is rapidly changing the world of finance.

There may be no part of our economy that is more suited to delivery in electronic form than financial services. The Internet is rapidly changing the way Americans borrow money, the way they get insurance, the way they save their money and the way they invest it. The Internet can bring information on financial products to consumers in the comfort of their home or, increasingly, any place they may be at any time. Financial firms will be competing in ways they never have before. The potential for greater access, efficiency, competition, and innovation are tremendous.

The Changing Environment for Financial Services

Technology is creating tremendous opportunities for expanded access to financial services. The Internet creates a 24-hour marketplace for financial services. While just under 30 percent of all households in the U.S. had Internet access in 1999, this figure will most certainly grow significantly.

The most important financial decisions that Americans make - decisions about mortgages, life insurance, auto and home owners insurance, auto loans, investing their savings - can all be aided by the Internet. We have come from a world where consumers were much more reliant on their local bankers, insurance agents, and brokers. We are moving into a world where information can be obtained from a broad variety of sources through the Internet, presented in a way that helps consumers find the product that best serves them. American consumers and the economy at large stand to benefit greatly from the enhanced services and competition fostered by the Internet.

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Consumers now are rapidly moving from using the Internet as an information-gathering tool to conducting transactions on line. Today, more than seven million Americans have on-line accounts to invest in the stock markets. Most other areas of Internet finance remain relatively small, however, and still have a great deal of growth opportunity.

Tremendous savings can be achieved in moving from paper to electronic information, enabling financial services to be provided at lower costs to consumers and business. Savings can be achieved both by improving productivity gains and by reducing the need for investments in physical assets. One consulting firm estimates that some transactions that cost $5.30 to do at a teller's window would cost as little as $0.09 on line.

Efficiency gains will also come on the institutional side, in business-to-business transactions. Institutional customers can gain greater access to dealer books electronically and equity and other underwriting may move on-line. New electronic communications networks (ECNs) also represent important opportunities for greater efficiency and competition in the trading markets.

While these developments represent enormous opportunities for financial service providers, they also bring very real challenges. New business models certainly will emerge. Operating margins may shrink just as the need to invest to stay competitive grows. Many of today's financial institutions may be encumbered by legacy systems, sales forces, and physical assets. In this environment, financial institutions will have to look very carefully at where they add value. Many institutions will adapt well. Others may struggle and no doubt some will not survive in their current form.

Financial institution regulators will have the challenge of keeping up with the changing business environment and of gauging how well institutions are coping. Regulators will have to recognize institutions that are not making the adjustment or are taking on excessive risk, possibly to compensate for shrinking profitability elsewhere.

While Internet access is greatly expanding, it is important that a gap not develop between those who have access to computers and those who don't. This "digital divide" threatens to become a factor in access to financial services. In the 21st Century, computer access is fast becoming what access to running water and electricity was in the early 20th Century -- basic utilities that we need to ensure everyone has to participate fully in the modern economy.

Treasury Success at E-Commerce

At Treasury, we have had significant success using new technologies. In some areas, we are ahead of the private sector.

Treasury runs one of the largest payment collection systems in the world, with more than $1.3 trillion or two out of every three dollars, of U.S. government revenue now collected electronically. Individuals can pay their taxes on line. More than three-quarters of all government benefit payments are now made electronically. So are almost sixty percent of payments to vendors.

We also are the world's largest issuer of smart cards. This year we will issue close to a quarter of a million smart cards at U.S. military installations throughout the world. We also are developing or testing a variety of new programs, including digital cash, secure Internet e-mail for the delivery of digital checks to vendors, and ACH debit authorizations over the Internet.

Sales of Treasury debt, both retail and institutional, also take advantage of new technologies. Auctions of Treasury securities are now entirely electronic, as the last paper bidders were recently moved to an Internet-based system. Consumers holding Treasury securities through the Treasury Direct program can make purchases or reinvest on line or through an automated phone system. Even Savings Bonds can now be purchased over the Internet.

Challenges

I would like to turn now to four issues that are particularly relevant for the financial services industry: privacy, electronic signatures, payments systems, and trading market structures.

Privacy

If electronic commerce is to live up to its full potential, consumers must have confidence in their ability to maintain their privacy, as well as other critical consumer protections. The ability to protect one's privacy is a core value that all Americans share.

The Administration has stressed the importance of industry leadership to create effective privacy protections through self-regulation. But there are several areas of such sensitivity that the government does have a role to play, and that is concerning medical information, children, and financial privacy.

Americans should not have to forgo participating in our modern economy to preserve their privacy. The challenge is to preserve the benefits of competition and innovation that information sharing and technology have brought while protecting the ability of consumers to preserve their privacy.

Last year, the President called for greater consumer privacy protections, including for the first time protections for personal financial information. We made significant progress toward greater financial privacy as part of 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.

But more can be done to protect personal financial privacy. Consumer choice for sharing with third parties should be a floor, not a ceiling. The President has called on Treasury, in consultation with others in the Administration, to develop legislation to enhance consumer privacy, particularly within financial conglomerates. We are consulting with industry, consumer groups, and Congress to fulfill the President's mandate. Our objective is a balanced proposal that will both enhance privacy protection and allow financial institutions to provide quality services. We hope to finalize these proposals in the near term.

In a recent address, the President put two simple questions to business leaders:

- Do you have privacy policies you can be proud of?
- Do you have privacy policies that you would be glad to have reported in the media?

I believe that the question of consumer control over personal information will become even more pressing as technological innovation continues.

Electronic Signatures

The Administration supports electronic commerce and has been working to promote its development wherever possible. The government has an important role to play in facilitating this progress. 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.

That is why the Administration is working with Congress on a critical step toward facilitating e-commerce through digital signature legislation. Two electronic signature bills, S.761 and H.R.1714, passed their respective Houses last year, and are on their way to conference. 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.

The House version goes further, however, allowing electronic delivery of a broad range of records, disclosures, and notices that are now provided in writing. While this could be a very important step forward, we should not take this step unless we can continue to provide the consumer protections that Congress and the States have previously enacted.

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. But a bill that fails to preserve existing consumer protections will be counterproductive, creating legal uncertainty for businesses and driving consumers away from transacting on-line.

We believe that with some common-sense changes, we can achieve a good electronic signatures bill. We are looking forward to working with Congress, industry, and consumer groups to produce a win-win bill that will lower a barrier to electronic commerce.

Payments

One of the greatest opportunities of the Internet could be the payments area. Technology could ultimately provide us with the means to permit safe, secure on-line movement of money. Transferring money over the Internet could be paperless and therefore efficient. It could be authenticated and therefore free of fraud. It could allow for real-time transfer of funds and therefore eliminate credit risk. The challenge is how we get there. Many have tried, but their efforts have yet to gain acceptance.

Virtually all on-line payments today are conducted using credit cards. But credit cards have drawbacks that limit their use for broad Internet e-commerce. In many ways, credit cards are still creatures of the paper-intensive retail store environment for which they were created. The transaction cost is a 2-6% discount charged to the seller, making it an expensive payment mechanism. Credit cards can be used for consumer retail transactions and small corporate purchases, but not for most business-to-business payments or for person-to-person payments. Additionally, credit card fraud is much higher on the Internet than off-line. For a variety of reasons, many consumers continue to be reluctant to use their cards on-line.

The growth of electronic bill presentment and payment has been slow, as well. Estimates indicate that close to eight percent of all households used some form of on-line banking service last year, but less than 1% of consumer bills currently are viewed and paid on-line. Although several high profile efforts to develop consumer electronic bill payment systems have been launched, the market has not yet found a viable model. As an aside, I would note that, when electronic bill payment does grow significantly, as I believe it will, it will create many challenges for the U.S. Postal Service. Bills and bill payments represent the bulk of first class mail, one of the Postal Service's most important revenue streams.

The lack of a viable Internet-based payment tool for business-to-business commerce is perhaps even a more important issue today. In the business-to-business world, the number of paper invoices and the paper checks continues to grow at a steady pace in spite of the growth of electronic commerce. Part of the reason for this may be that no payment mechanism has yet been developed for the Internet that is both safe and secure and that can carry related transaction information along with the payment.

I believe the private sector will be able to find solutions to moving payments securely and efficiently on-line. When this occurs, it will make a significant contribution to the growth of e-commerce and the economy as a whole.

Trading Markets

New technologies also are rapidly changing the way market professionals and investors trade in the markets for securities and derivatives. These developments are leading to changes in the structure of the markets themselves.

There already have been dramatic changes in the trading of equity securities. The proliferation of electronic communication networks (ECNs) and proprietary trading systems has expanded the ways that investors access the markets. ECNs now account for 30 percent of Nasdaq's trades. We supported the removal of Rule 390 by the New York Stock Exchange to promote similar market competition for listed securities. Increased market competition, however, may over time change the way investors participate in markets. The challenge will be to promote market competition and innovation, while at the same time ensuring vigorous quote competition among market participants.

New technologies also will allow for significant changes in the way derivatives can be traded. With important changes in existing law, the development of electronic trading networks could facilitate interdealer trading in the over-the-counter (OTC) derivatives markets. That is why, last fall, the President's Working Group on the Financial Markets called on Congress to remove current legal impediments to the development of electronic trading systems and clearing systems for OTC derivatives. These systems have the potential to enhance market transparency and efficiency and to reduce counterparty risks for participants. We are working with Congress to include these provisions in legislative proposals to reauthorize the Commodity Futures Trading Commission (CFTC) this year.

Conclusion

New technologies have the potential to dramatically change the world of finance though greater access, more efficiency, and increased competition and innovation. As we make the transition to e-commerce, however, we must find ways to promote access, privacy, and consumer protection.

Technology will lead to significant changes in the financial industry over the next ten years. Today, the U.S. financial industry is the strongest in the world. I am confident that it will find ways to innovate and adapt in this new world.

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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
March 15, 2000

STATEMENT BY TREASURY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS EDWIN M. TRUMAN

We are deeply concerned about the information in yesterday's IMF statement, which describes the past mismanagement and misreporting of Ukraine's reserves. All IMF members are obligated to provide the IMF with comprehensive and accurate information on their finances and economic and financial policies.

The IMF and Ukraine must complete a thorough investigation and audit of Ukraine's reserve reporting and management from end-1996 to September 1998, and publish the results. We welcome Ukraine's commitment to a policy of maximum transparency and openness in cooperation with international financial institutions. We also welcome its recent progress and resolve to strengthen economic reforms.

In addressing the issue of additional IMF financing for Ukraine, we will review the results of this investigation in order to determine what additional controls are needed to prevent future inappropriate reserve management practices and to ensure that future IMF resources made available to Ukraine are used for their intended purpose. Ukraine must also satisfy the economic and financial policy conditions for a resumption of IMF lending.

IMF management has acknowledged that the handling of this matter raises issues that it needs to address, including the handling of reports of Ukrainian reserve mismanagement emanating from the Ukrainian parliamentary commission.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:00 A.M. EST
Text as prepared for Delivery
March 16, 2000

ASSISTANT SECRETARY LEE SACHS
SUBCOMMITTEE ON CAPITAL MARKETS, SECURITIES AND GOVERNMENT SPONSORED ENTERPRISES

Mr. Chairman, Ranking Member Kanjorski, members of the Subcommittee, I appreciate the opportunity to appear before you today on behalf of the President's Working Group on Financial Markets. I would like to thank the members of this Subcommittee for your leadership in efforts to mitigate systemic risk by implementing recommendations that the President's Working Group on Financial Markets (the Working Group) set forth in its April 1999 report, *Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management.*

Today, I would like to focus my comments on two broad areas:

- First, I will briefly address the developments in systemic risk mitigation since the Working Group issued its report, including progress in the implementation of the Working Group's specific recommendations;
- Second, I will focus on the importance of market discipline and enhanced transparency and disclosure, and the ways in which H.R. 2924, the bill you will be addressing today, introduced by Chairman Baker, Ranking Member Kanjorski and others, would help to promote enhanced transparency in our financial system.

As you recall, in the immediate aftermath of the near-collapse of LTCM in September 1998, then-Secretary Rubin called on the Working Group to prepare a study of the potential implications of the operations of firms such as LTCM and their relationships with their creditors and counterparties. The Working Group report concluded that the near collapse of LTCM highlighted the possibility that problems at one financial institution – (i.e. a hedge fund or other highly leveraged institution) - could be transmitted to other institutions and potentially pose risks to the financial system, and, that excessive leverage in such institutions can increase the likelihood of a general breakdown in the functioning of financial markets. Thus, the principal public policy issue arising out of the events surrounding the near-collapse of LTCM was how to constrain excessive leverage more effectively.

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To this end, the Working Group set forth a series of recommendations designed to help constrain excessive leverage and thereby help to reduce the likelihood that future failures of individual institutions could pose a threat to our financial markets more broadly. Three broad themes united these recommendations:

- The first is that our market economy relies primarily on market discipline to constrain excesses - particularly excessive leverage;
- The second is that that market discipline must be built upon sound risk management practices by all market participants; and
- Finally, in order for markets, generally, to impose that discipline, there must be sufficient transparency and information available to allow individual participants, including creditors, counterparties, and investors to make more informed investment and credit decisions.

Let me briefly update you on the progress that has been made to date on the implementation of the recommendations from the report that promote these themes and, more generally, on the mitigation of systemic risk:

- First, our call for regulators to encourage improvements in the risk management systems of regulated entities was answered last year when the Federal Reserve Board and the Office of the Comptroller of the Currency issued new guidelines urging improvements in such systems. The guidelines were designed to address weaknesses in banks' existing credit risk management tools and the risk management of financial derivatives and to help banks adapt their basic risk management policies, procedures, and internal controls to new products and counterparties in increasingly global and interrelated markets.

- Second, the provisions recommended by the Working Group to improve the netting regime for certain financial contracts in bankruptcy and bank insolvency situations are currently a subject for the conference committee on the bankruptcy bill. We urge Congress to adopt these financial contract netting provisions.

- Third, the private sector has responded to the Working Group's calls for improvements in their risk management practices with groups such as the Counterparty Risk Management Policy Group (CRMPG) and a group of the largest hedge funds publishing reports outlining detailed recommendations for improved risk management standards. These reports have also helped to advance the dialogue between the public and private sectors concerning public disclosure.

- Fourth, internationally, groups such as the Highly Leveraged Institutions (HLI) Working Group of the Financial Stability Forum are taking a hard look at highly leveraged institutions and their effect upon market dynamics worldwide. The HLI Working Group report will be released in a few weeks, and we expect it to broadly support the thrust of the proposals of the President's Working Group, including the legislation being discussed today. Additionally, the International Swaps & Derivatives Association (ISDA), the Emerging Markets Traders' Association (EMTA), the Bond

Market Association and the Financial Markets Lawyers Group have joined together, with others, to create the Global Documentation Steering Committee to help reduce systemic risk by "improving the plumbing" through efforts to ensure that industry documentation initiatives will be harmonized.

While this progress is encouraging, there is still more work to be done. Tomorrow, Secretary Summers will elaborate on some of these issues in a speech that he will give at the Futures Industry Association conference.

Transparency and H.R. 2924

Let me now turn to H.R. 2924 and the issues of transparency and disclosure. The premise of the Working Group's recommendations is that, in our market economy, the primary mechanism that should and does regulate risk-taking is the market discipline provided by creditors, counterparties, and investors. This discipline can serve to constrain excessive leverage and thereby reduce the associated risks. But its effectiveness is contingent upon counterparties and investors having the information necessary to impose such discipline. The government cannot impose market discipline, but can help to enhance the effectiveness of market discipline by creating an environment of greater transparency and disclosure. Indeed, the long history of public disclosure and transparency in our financial markets has been a source of great strength, and a leading factor in establishing and maintaining the high degree of confidence the world has in the integrity of the U.S. financial markets. This confidence, in turn, increases investment in our markets, lowering the cost of capital for American businesses and individuals, and thereby helping to strengthen the U.S. economy.

Several of the Working Group's recommendations were designed to enhance transparency, and important efforts are already underway to enact some of these recommendations:

- The Commodity Futures Trading Commission (CFTC) has been drafting proposed regulations that would require more relevant and more frequent information from large commodity pool operators regarding the funds they operate and would make this information public. These regulations will be similar to the provisions contained in H.R. 2924 as amended and, should H.R. 2924 become law, it would be important that those reporting to the CFTC and those reporting to the Federal Reserve Board report the same sort of information; and

- The Securities and Exchange Commission (SEC) has been studying ways to implement the disclosure recommendation for public companies and has indicated that they will introduce a draft for public comment in the near future.

H.R. 2924 would contribute to these efforts to enhance transparency by implementing the Working Group's recommendations regarding public disclosure of more frequent and meaningful information on the largest hedge funds. If the manager's amendment is adopted, the bill would require that the largest unregulated hedge funds provide basic non-proprietary financial information and meaningful and comprehensive measures of risk to the Federal Reserve Board of Governors. The Federal Reserve would then share that information with other members of the President's Working Group and disclose the information publicly, allowing market participants to make more informed investment decisions.

One of the primary areas of concern expressed by the private sector has been the challenge of balancing the disclosure necessary to enhance market discipline with the need for protection of proprietary information essential to the firms' ability to engage in business transactions. The Working Group is sensitive to this concern. We believe that H.R. 2924, with the manager's amendment, strikes the appropriate balance by providing the Federal Reserve, in consultation with the other members of the Working Group, with the flexibility to determine what information is both relevant and useful without compromising the firms' ability to engage in business transactions.

H.R. 2924 does not call for direct regulation of hedge funds. It is our view that investors in highly leveraged institutions are generally high net worth individuals or institutional investors, and the usual investor protection grounds for such regulation are not relevant. Moreover, a direct regulatory regime could create a form of moral hazard in which investors and counterparties, knowing that a highly leveraged institution is regulated and supervised for systemic reasons, might reduce their normal due diligence and relax their risk management standards. Thus, rather than imposing regulation, H.R. 2924 would provide for enhanced public disclosure only by those hedge funds that are large enough such that if any one of them were to fail, such failure could potentially pose risk to the financial system more broadly.

We recognize that enhancing transparency and disclosure and providing information to market participants does not guarantee that those participants will process or use the information effectively. However, it is equally true that if the information is not made available to market participants, it cannot be processed or used at all. Thus, the Working Group is seeking to provide the market with one of the key ingredients to making informed credit and investment decisions and thereby collectively promoting greater market discipline.

In this way, H.R. 2924, combined with the Working Group's other recommendations, would take an important step in helping to mitigate systemic risk.

Finally, I would like to thank you, Mr. Chairman, Mr. Kanjorski, and other sponsors of H.R. 2924 for the spirit of cooperation with which you have approached this bill. Members of the Working Group have been working closely with Committee staff and representatives of the private sector to help ensure that this legislation is as effective as possible in accomplishing our collective goals while remaining sensitive to private sector concerns. We are pleased with the results of this cooperation and the steps this bill, as amended by the manager's amendment, takes in promoting our efforts to create an environment conducive to enhanced market discipline.

The Working Group appreciates this Subcommittee's ongoing interest in and efforts regarding the Working Group's recommendations.

I would be happy to answer any questions that you may have.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 17, 2000

Contact: Office of Financing
(202) 691-3550

TREASURY'S INFLATION-INDEXED SECURITIES APRIL REFERENCE CPI NUMBERS AND DAILY INDEX RATIOS

Public Debt announced today the reference Consumer Price Index (CPI) numbers and daily index ratios for the month of April 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 469. The information is also available on the Internet at Public Debt's website (http://www.publicdebt.treas.gov).

The information for May is expected to be released on April 14, 2000.

oOo

Attachment

PA-443

LS-469

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
April 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
April 1 2000	168.70000	1.06479	1.05336	1.04423	1.04303
April 2 2000	168.73333	1.06500	1.05356	1.04443	1.04324
April 3 2000	168.76667	1.06521	1.05377	1.04464	1.04344
April 4 2000	168.80000	1.06542	1.05398	1.04485	1.04365
April 5 2000	168.83333	1.06563	1.05419	1.04505	1.04385
April 6 2000	168.86667	1.06584	1.05440	1.04526	1.04406
April 7 2000	168.90000	1.06605	1.05460	1.04547	1.04427
April 8 2000	168.93333	1.06626	1.05481	1.04567	1.04447
April 9 2000	168.96667	1.06647	1.05502	1.04588	1.04468
April 10 2000	169.00000	1.06668	1.05523	1.04608	1.04489
April 11 2000	169.03333	1.06689	1.05544	1.04629	1.04509
April 12 2000	169.06667	1.06710	1.05565	1.04650	1.04530
April 13 2000	169.10000	1.06731	1.05585	1.04670	1.04551
April 14 2000	169.13333	1.06752	1.05606	1.04691	1.04571
April 15 2000	169.16667	1.06773	1.05627	1.04712	1.04592
April 16 2000	169.20000	1.06794	1.05648	1.04732	1.04612
April 17 2000	169.23333	1.06815	1.05669	1.04753	1.04633
April 18 2000	169.26667	1.06836	1.05689	1.04774	1.04654
April 19 2000	169.30000	1.06857	1.05710	1.04794	1.04674
April 20 2000	169.33333	1.06878	1.05731	1.04815	1.04695
April 21 2000	169.36667	1.06899	1.05752	1.04836	1.04715
April 22 2000	169.40000	1.06920	1.05773	1.04856	1.04736
April 23 2000	169.43333	1.06942	1.05793	1.04877	1.04757
April 24 2000	169.46667	1.06963	1.05814	1.04897	1.04777
April 25 2000	169.50000	1.06984	1.05835	1.04918	1.04798
April 26 2000	169.53333	1.07005	1.05856	1.04939	1.04818
April 27 2000	169.56667	1.07026	1.05877	1.04959	1.04839
April 28 2000	169.60000	1.07047	1.05898	1.04980	1.04860
April 29 2000	169.63333	1.07068	1.05918	1.05000	1.04880
April 30 2000	169.66667	1.07089	1.05939	1.05021	1.04901

CPI-U (NSA) for:	December 1999	168.3	January 2000	168.7	February 2000	169.7

TREASURY INFLATION-INDEXED SECURITIES
Ref CPI and Index Ratios for
April 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 15, 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	
April 1 2000	168.70000	1.02866	1.02620	1.00270	
April 2 2000	168.73333	1.02886	1.02640	1.00290	
April 3 2000	168.76667	1.02907	1.02660	1.00310	
April 4 2000	168.80000	1.02927	1.02681	1.00330	
April 5 2000	168.83333	1.02947	1.02701	1.00350	
April 6 2000	168.86667	1.02967	1.02721	1.00369	
April 7 2000	168.90000	1.02988	1.02741	1.00389	
April 8 2000	168.93333	1.03008	1.02762	1.00409	
April 9 2000	168.96667	1.03028	1.02782	1.00429	
April 10 2000	169.00000	1.03049	1.02802	1.00449	
April 11 2000	169.03333	1.03069	1.02822	1.00468	
April 12 2000	169.06667	1.03089	1.02843	1.00488	
April 13 2000	169.10000	1.03110	1.02863	1.00508	
April 14 2000	169.13333	1.03130	1.02883	1.00528	
April 15 2000	169.16667	1.03150	1.02904	1.00548	
April 16 2000	169.20000	1.03171	1.02924	1.00568	
April 17 2000	169.23333	1.03191	1.02944	1.00587	
April 18 2000	169.26667	1.03211	1.02964	1.00607	
April 19 2000	169.30000	1.03232	1.02985	1.00627	
April 20 2000	169.33333	1.03252	1.03005	1.00647	
April 21 2000	169.36667	1.03272	1.03025	1.00667	
April 22 2000	169.40000	1.03293	1.03046	1.00686	
April 23 2000	169.43333	1.03313	1.03066	1.00706	
April 24 2000	169.46667	1.03333	1.03086	1.00726	
April 25 2000	169.50000	1.03354	1.03106	1.00746	
April 26 2000	169.53333	1.03374	1.03127	1.00766	
April 27 2000	169.56667	1.03394	1.03147	1.00786	
April 28 2000	169.60000	1.03415	1.03167	1.00805	
April 29 2000	169.63333	1.03435	1.03187	1.00825	
April 30 2000	169.66667	1.03455	1.03208	1.00845	

CPI-U (NSA) for: December 1999 168.3 | January 2000 168.7 | February 2000 169.7

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

IMMEDIATE RELEASE
ı 16, 2000

PUBLIC CONTACT: Office of Financing
202-691-3550
MEDIA CONTACT: Bill Buck
202-622-1997

TREASURY DEBT BUYBACK OPERATION RESULTS

Today, Treasury completed a debt buyback (redemption) operation for $1,000 million ıf its outstanding issues. A total of 11 issues maturing between May 2018 and ıber 2021 were eligible for this operation. The settlement date for this operation will .rch 20, 2000. Summary results of this operation are presented below.

(amounts in millions)

s Received (Par Amount):	$6,446
s Accepted (Par Amount):	1,000
Price Paid for Issues Less Accrued Interest):	1,268
r of Issues Eligible:	
ɔr Operation:	11
ɔr Which Offers were Accepted:	11
:ed Average Yield f all Accepted Offers (%):	6.358
:ed Average Maturity ɔr all Accepted Securities (in years):	19.6

.s for each issue accompany this release.

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March 16, 2000

TREASURY DEBT BUYBACK OPERATION RESULTS

(amounts in millions, prices in decimals)

Table I

Coupon Rate (%)	Maturity Date	Par Amount Offered	Par Amount Accepted	Highest Accepted Price	Weighted Average Accepted Price
9.125	05/15/18	495	28	129.343	129.317
9.000	11/15/18	825	383	128.484	128.457
8.875	02/15/19	1,168	90	127.375	127.316
8.125	08/15/19	724	15	119.578	119.567
8.500	02/15/20	335	24	124.062	124.059
8.750	05/15/20	396	155	127.093	127.074
8.750	08/15/20	686	221	127.312	127.264
7.875	02/15/21	443	60	117.718	117.703
8.125	05/15/21	335	5	120.687	120.668
8.125	08/15/21	321	10	120.906	120.906
8.000	11/15/21	716	10	119.609	119.609

Table II

Coupon Rate (%)	Maturity Date	CUSIP Number	Lowest Accepted Yield	Weighted Average Accepted Yield	Par Amount Privately Held*
9.125	05/15/18	912810EA2	6.373	6.375	7,450
9.000	11/15/18	912810EB0	6.368	6.370	8,111
8.875	02/15/19	912810EC8	6.364	6.369	17,476
8.125	08/15/19	912810ED6	6.354	6.355	18,358
8.500	02/15/20	912810EE4	6.352	6.352	8,844
8.750	05/15/20	912810EF1	6.347	6.349	8,610
8.750	08/15/20	912810EG9	6.344	6.347	19,670
7.875	02/15/21	912810EH7	6.334	6.335	10,214
8.125	05/15/21	912810EJ3	6.335	6.337	10,639
8.125	08/15/21	912810EK0	6.328	6.328	10,593
8.000	11/15/21	912810EL8	6.324	6.324	29,926

al Par Amount Offered: 6,446

al Par Amount Accepted: 1,000

ount outstanding after operation. Calculated using amounts reported on announcement.

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.
farch 16, 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 ıpproximately $16,000 million to refund $16,912 million of publicly held ;ecurities maturing March 23, 2000, and to pay down about $912 million.

In addition to the public holdings, Federal Reserve Banks for their own ıccounts hold $7,144 million of the maturing bills, which may be refunded at :he highest discount rate of accepted competitive tenders. Amounts issued to :hese accounts will be in addition to the offering amount.

The maturing bills held by the public include $3,219 million held y Federal Reserve Banks as agents for foreign and international monetary ıuthorities. Up to $3,000 million of these securities may be refunded within :he offering amount in each of the auctions of 13-week bills and 26-week ›ills at the highest discount rate of accepted competitive tenders. Addi-:ional amounts may be issued in each auction for such accounts to the extent :hat the amount of new bids exceeds $3,000 million.

TreasuryDirect customers requested that we reinvest their maturing hold-ngs of approximately $947 million into the 13-week bill and $785 million into he 26-week bill.

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

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

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HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MARCH 23, 2000

March 16, 2000

Offering Amount	$8,500 million	$7,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 EB 3	912795 FA 4
Auction date	March 20, 2000	March 20, 2000
Issue date	March 23, 2000	March 23, 2000
Maturity date	June 22, 2000	September 21, 2000
Original issue date	June 24, 1999	March 23, 2000
Currently outstanding	$26,029 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

Competitive bids .... (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Maximum Award.................. 35% of public offering

Receipt of Tenders:

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

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

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
Remarks as Prepared for Delivery
March 17, 2000

REMARKS OF TREASURY SECRETARY LAWRENCE H. SUMMERS TO THE FUTURES INDUSTRY ASSOCIATION BOCA RATON, FLORIDA

Good morning. I am glad to have this opportunity to speak to the Futures Industry Association. Your industry makes a significant contribution to our economy.

The futures industry directly employs almost 300,000 people generating enormous downstream benefits to the rest of the economy and indirectly sustaining tens of thousands more jobs. It makes up a significant proportion of US financial services exports. Even more importantly, the futures industry has played a key role in the American economic success story of the past decade: the nearly ten year-old investment-led expansion that has created a prosperity and a rate of productivity growth that few would have anticipated even a few years ago.

There are many reasons for this prosperity: our fiscal discipline; our success in managing information technology; and the vitality of entrepreneurship in the U.S. But I am convinced that an important part of the credit for our unprecedented economic performance goes to the unparalleled strength and dynamism of our financial markets.

- No other country offers such deep and liquid capital markets or such an impressive venture capital industry.

- No other financial market is so open to foreign competition or so quick to innovate, whether it be in the area of securitization, financial derivatives, high-yield bonds, or equity finance.

- And no other financial system has combined so effectively the integrity of high-quality regulation with the absence of excessive state interference.

By allocating capital to its highest and best uses and by ensuring its availability to the industries of the future, our financial markets have unquestionably been major contributors to America's economic success.

Certainly, this is a very special time. We are enjoying the longest period of economic growth in our history; our markets have remained a source of opportunity while weathering a series of recent crises; and our financial sector continues to be the world leader. For these reasons, we are

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justifiably confident about the strengths of America's financial industry. But we must not allow our confidence to spill over into a sense of complacency. Markets are at their most vulnerable when their sense of self-belief is strongest.

That is why we must learn the lessons of previous crises so that we can minimize the likelihood of a recurrence – by working with leading market participants, both in the U.S. and elsewhere, to develop a stronger international financial architecture that will reduce the frequency of crises and lessen their impact when they do occur. The role of key members of the private sector in this effort has been as welcome as it has been constructive.
With this as a backdrop, let me divide my remarks today into four parts:

- First, the critical importance of financial markets, including derivatives markets, to the broader economy.

- Second, the lessons that we have drawn from the recent financial disruptions and crises.

- Third, the role of the public sector and the need for effective self-regulation within our financial markets.

- And fourth, our policy agenda in the years ahead.

I. The Critical Economic Importance of Effective Capital Markets and Financial Derivatives.

As a central component of the broader capital markets, financial derivatives play a critical role in facilitating the efficient pricing and allocation of risk in the economy. They are a powerful symbol of the kind of innovation and technology that has made the American financial system as strong as it is today.

We have an enormous stake in securing the overall strength of the U.S. financial markets and in strengthening the position of the U.S. as the world's leading financial center. When business moves elsewhere we all pay a price: the private sector pays a price in lost market share and lower employment; and the public sector pays a price because the migration of business undermines its regulatory objectives. That is why all of us, Chairman Greenspan, Chairman Rainer, Chairman Levitt, and myself, are committed to maintaining the competitiveness of the U.S. financial system.

Well-functioning derivatives markets permit us three critical benefits.

- The first benefit is better distribution and management of risk. By allowing for the transfer of financial risk and enabling American businesses and institutions to hedge their risks more efficiently, financial derivatives promote the efficient allocation of capital that further increases American productivity. For example, financial institutions routinely use Eurodollar futures contracts to reduce their exposure to movements in short-term interest rates.

- Second, there is the benefit of lower costs for American consumers and businesses. By enabling a more sophisticated management of assets, including mortgages, consumer loans and corporate debt, financial derivatives can help lower mortgage payments, insurance premiums, and other financing costs for American consumers and businesses.

- And third, well-functioning derivatives and futures markets help make our economy stronger Because a well-functioning and efficient capital market broadens – and lowers the cost of – capital access for businesses and financial institutions alike, financial derivatives boost economic opportunity and growth. For example, lenders that have hedged their exposure to interest rates are able to reduce the cost of credit to businesses and consumers.

And yet, in spite of the dynamism and efficiency of our financial system, we have seen that our financial markets can also be prone to disruption and crisis. Indeed, it was only 18 months ago that the crisis at Long Term Capital Management (LTCM) raised the specter of what many believed might have been the worst financial crisis in 50 years.

II. The Lessons of Recent Crises

LTCM was not the first accident to befall the financial markets in recent years. One need only think of Black Monday in 1987, the collapse of Barings Bank in 1995 or the crises of 1997 and 1998 in Asia and Russia. And certainly, we can be sure that other financial failures will strike in the future.

History tells us that creditors, counterparties and investors sometimes become complacent in making risk assessments in an attempt to achieve higher short-term returns. A tendency toward complacency can be particularly prevalent in good times, as creditors and investors become less concerned about risk.

In that sense the near-collapse of LTCM was perhaps a wake-up call for the markets about the need for greater transparency and better risk management practices and to keep pace with an increasingly interconnected and complex world with all the new risks that brings.

Let me highlight four primary lessons that the public and private sectors can draw from the LTCM crisis.

- First, markets and technology may change but human psychology endures. The tendency to fall into complacency and over-optimism in good times; the tendency to assume that past relationships will hold in the future; and the tendency to assume that events that have not occurred will not occur in the future, is as old as the financial markets themselves. This is a lesson about over-confidence.

- Second, LTCM presented us with an unusually toxic combination of excessive leverage and asset and funding illiquidity. Leverage without illiquidity does not pose serious problems because positions can be unwound. Illiquidity without leverage can be solved with time. But where a combination of illiquidity and leverage is pervasive, the risks to stability are at their greatest. The traditional law of supply and demand can be distorted: for, when the price of an asset falls, the supply can increase as those who hold it are forced to liquidate.

- Third, there was in the LTCM crisis the combination of non-transparency and surprise. Where there is no transparency; where lenders are not aware of the basis on which they are lending, you have the greatest prospect for surprise and therefore the greatest threat of instability.

- Fourth, and crucially, many market participants learned that modern hedging strategies and models do not necessarily work as they were intended. Hedging market risk has many positive advantages but it can be complex and comes with its own inherent risks.

III. The Role of the Public Sector.

These factors together – market over-confidence, the toxic combination of over-leverage and illiquidity, non-transparency and the risks that hedging strategies and models may not live up to their design – are problems of which we must all be aware. Let me be clear, it is the private sector, not the public sector, that is in the best position to provide effective supervision. Market discipline is the first line of defense in maintaining the integrity of our financial system.

The public sector, for its part, has three fundamental roles.

- First, it needs to create an environment in which market discipline can work effectively. Counterparties and creditors have more knowledge of their counterparts, more skill in evaluating risk and greater incentives than any public regulator will ever have. The best approach to regulation is therefore to maximize the quality of counterparty discipline and to ensure that public activities do not crowd out the supervision provided by counterparties, creditors and investors.

- Second the public sector must promote the maximum degree of transparency, because transparency is the necessary corollary to counterparty discipline. The government cannot impose counterparty discipline, but it can help to enhance the effectiveness of market discipline by creating an environment of greater transparency and disclosure. Indeed, the long history of transparency in our financial markets has been a source of great strength, and a leading factor in maintaining the integrity of U.S. markets.

- Third, the public sector has a duty to maintain the competitiveness of the system as a whole. Just as there is a sharp distinction between support for the free enterprise system and support for individual enterprises, so also the task of public policy must be to ensure the stability and integrity of the market system rather than to seek to ensure the survival of individual firms or investors. Regulation must never hold out the prospect that it can eliminate risk or that it can prevent any individual institution from failing. Any regime that had that effect would be perverse and counterproductive and undermine market discipline.

IV. Our Policy Agenda Going Forward

We thus have a clear set of principles to guide the role of the public sector. These are: to strengthen market discipline, to promote transparency in the markets, and to promote efficient and competitive financial markets in the interests of the health of the broader American economy.

In applying these principles, we have four clear areas of priority over the coming months and years. Let me highlight the following:

First, increased transparency

We are calling on financial institutions, supported by their regulators, to improve counterparty diiscipline in general – and to disclose their exposure to highly leveraged institutions in particular. Specifically:

- Regulatory agencies should continue to apply the recommendations of the President's Working Group report on Hedge Funds that are designed to enhance the monitoring of leverage and risk, and to improve transparency: especially the steps to increase reporting by the largest hedge funds and disclosure by public companies of direct material exposures to leveraged financial institutions.

- We urge Congress to codify some of the recommendations of the Working Group on Hedge Funds including the bill put forward by Congressman Baker.

- We look forward to the findings of the Financial Stability Forum working group's report on Highly Leveraged Institutions that will be published soon and will build on the findings of the President's Wörking Group report on Hedge Funds.

Transparency is also an international concern. It is incumbent on all countries to promote better prudential oversight.

Second, improved risk management in the private sector

We support private sector proposals to improve risk management practices such as those recommended by the CRMPG and the Hedge Fund Group. These call upon firms to institute effective risk analysis of their portfolios, conduct realistic stress testing of their models and ensure they have adequate liquidity in the event of a crisis.

To be sure, recent experience has brought a certain humility to those involved in a construction of risk management models. We have seen that what statisticians call "outliers" and what others call "freak events" can happen too often. Not only do outlier situations occur, but traditional patterns also breakdown in times of crisis. This makes it all the more essential that risk management systems be improved, updated as necessary, and subjected to rigorous stress-testing.

Third, establishment of legal certainty for derivatives markets

We are calling on Congress to take new steps, as part of its re-authorization of the Commodity Exchange Act, to provide legal certainty for the OTC derivatives market and afford some regulatory relief for the nation's futures exchanges. This will give the industry the benefits of a clear regulatory and legal environment and thus help to promote U.S. competitiveness at a critical juncture. It will also reduce systemic risk by permitting the creation of clearing houses that will provide more satisfactory netting arrangements and margin facilities. Of course, as technology reshapes our derivatives markets it will also be essential to ensure that the interests of retail customers are protected

Fourth, improved market infrastructure.

Our markets will not be fail-safe until they are safe for failure. This is an issue with respect to the failure of individual institutions, which is why it is so important that Congress enact the Financial Contract Netting provisions of the Bankruptcy Bill. It is also an issue that goes beyond the area of bankruptcy to the "plumbing" of our financial system. Improving the plumbing may not be glamorous. But it is a vital part of our objective of minimizing the effects of crises. For example, if "plumbing" measures such as proper settlement mechanisms, harmonized documentation, and contractual uniformity, had been in place, the financial environment in September 1998 would have been much more secure.

V. Conclusion.

Our market-based economy relies primarily on the discipline provided by creditors, counterparties, and investors to constrain the leverage of both regulated and unregulated financial entities. While recent crises have prompted market participants to make some encouraging and necessary changes to their risk management practices, we must remain vigilant. The history of such crises tells us that even painful lessons quickly recede from memory. The markets are especially vulnerable to complacency when they are performing well. We must take advantage of this moment to carry out the reforms that we all agree are necessary. If we delay taking action until the next crisis is upon us, it will already be too late. Thank you very much.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Immediate Release
March 17, 2000

Contact: Public Affairs
(202) 622-2960
HUD, Public Affairs
(202) 708-0685

SECRETARIES SUMMERS AND CUOMO MAKE GUN ANNOUNCEMENT

Treasury Secretary Lawrence H. Summers, Deputy Secretary Stuart Eizenstat and Housing and Urban Development Secretary Andrew Cuomo will hold a news conference to make an historic gun announcement at **noon today**, at HUD, 451 Seventh Street, S.W., in the Cafeteria (first floor).

# # #

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NEWS

Department of Housing and Urban Development – **Andrew Cuomo, Secretary**
Department of the Treasury – **Lawrence H. Summers, Secretary**

HUD Public Affairs **(202) 708-0685**
Treasury Public Affairs **(202) 622-2960**
HUD No. 00-56
http://www.hud.gov/news.html

FOR RELEASE
Noon Friday
March 17, 2000

CLINTON ADMINISTRATION AND STATE AND LOCAL GOVERNMENTS REACH BREAKTHROUGH GUN SAFETY AGREEMENT WITH SMITH & WESSON

WASHINGTON – The Clinton Administration and state and local governments today reached a breakthrough agreement with America's largest gun manufacturer – Smith & Wesson – under which the company agrees to make major changes in the design, distribution and marketing of guns to make them safer and to help keep them out of the hands of children and criminals.

The agreement requires Smith & Wesson to: 1) Install mandatory gun locks and other child-safety devices on all guns. 2) Introduce "smart gun" technology in all newly designed handguns. 3) Bar gun sales – including gun show sales – without a background check of the buyer. 4) Limit multiple handgun sales.

The agreement was signed for the Clinton Administration by Housing and Urban Development Secretary Andrew Cuomo and Treasury Secretary Lawrence H. Summers. Deputy Treasury Secretary Stuart Eizenstat and Deputy Attorney General Eric Holder participated in the announcement of the signing.

In addition, the agreement was signed by New York Attorney General Eliot Spitzer and Connecticut Attorney General Richard Blumenthal on behalf of their states.

Representatives of cities and counties that have filed lawsuits against gun manufacturers also approved the agreement, pledging to drop their lawsuits against Smith & Wesson in exchange for the company's landmark reforms. Cities and counties initially signing the agreement were: Miami-Dade County, FL; Los Angeles, Inglewood, San Francisco and Berkeley in California; Bridgeport, CT; Atlanta, GA; Camden, NJ; St. Louis, MO; Detroit, MI; and Gary, IN. More could sign in the future.

Smith & Wesson President and CEO L.E. Shultz signed the agreement for the company.

The U.S. government will require any additional gun manufacturers joining in the agreement to meet all the requirements set for Smith & Wesson, with the possibility of some additional concessions.

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The agreement is the product of negotiations between HUD, the Treasury Department and local governments with Smith & Wesson that were designed to settle lawsuits already filed against Smith & Wesson and to make new ones unnecessary.

"This is a historic agreement that will save lives," Secretary Cuomo said. "Smith & Wesson has acted responsibly and in the best interests of the American people by agreeing to adopt common-sense measures to reduce gun violence across the country."

"As a result of this breakthrough agreement, fewer parents will have to bury their children," Secretary Summers said. "The agreement is a great example of the public and private sectors coming together to move the country forward on what is our most critical public safety issue."

The agreement is designed to reduce the toll of gun violence, which each year claims more than 30,000 lives and injures another 100,000 people in crimes, accidents and suicides around the United States.

A commission made up of two representatives from local governments, one from states, one from Smith & Wesson and one selected by the U.S. Bureau of Alcohol, Tobacco and Firearms will oversee the agreement.

The Oversight Commission will have the power to notify Smith & Wesson of any gun dealer violations. This notification will trigger penalties against gun dealers by Smith & Wesson and the Commission that could include barring dealers from selling Smith & Wesson products. Smith & Wesson will also take action, including suspension or termination, against dealers responsible for a disproportionate number of crime gun traces. This provision is designed to focus industry attention on the relatively small number of current dealers that are the source of many guns used in crimes. An estimated 57 percent of guns used in crimes are sold by just 1.2 percent of dealers.

Under the agreement, all guns must have child safety devices, include internal locks, hidden serial numbers and pass stringent performance tests.

Smith & Wesson will also devote 2 percent of revenues to develop "smart gun" technology and will equip all newly designed guns with such technology within three years. "Smart guns" can only be fired by an authorized person, making them useless in the hands of thieves or children who could get hold of guns.

Other provisions of the agreement, which apply to Smith &Wesson and its dealers include requirements that:

- No sales can be made until the buyer passes a background check.

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- Guns cannot be marketed to appeal to children or criminals.

- No sales can be made at a gun show unless background checks are performed for all sales.

- A purchaser can take home only one gun at the time of purchase and must wait two weeks to pick up additional guns. This is designed to prevent illegal traffickers from buying large quantities of guns.

- Within six months, packaging of new guns must include a warning on the risk of having a firearm in the home and suggestions for safe storage.

- Gun stores must have a security plan and guns and bullets must be kept locked and separated.

- Gun dealer employees must complete annual training and pass an exam.

- Distributors can only sell to other distributors or dealers that agree to abide by the agreement.

- Smith & Wesson agrees to work with the Bureau of Alcohol, Tobacco and Firearms (ATF) to establish a system for firing each gun it makes and entering digital images of the casings into the National Integrated Ballistics Identification (NIBIN) system and accessible by ATF. This will make it easier for law enforcement to trace bullet casings used in crimes back to the guns that fired them.

- Establishment of a trust fund by Smith & Wesson to implement a public service campaign to inform people about the risk of firearms in the home, proper home storage, the importance of proper disposal and need to reduce gun violence.

Guns manufactured and sold to the military and law enforcement agencies will be granted an exception to the safety features mandated by the new agreement, if the military or law enforcement agencies certify the need.

HUD and the Treasury Department entered the negotiations with Smith & Wesson after President Clinton said his Administration could support a class action lawsuit by the nation's 3,200 public housing authorities that would be designed to reduce gun violence in public housing and nearby areas. About 3 million low-income people live in public housing.

Cuomo said months ago that HUD would seek to help negotiate a settlement to achieve the objectives of such a lawsuit.

Gun violence is a major problem in the nation's public housing developments, which are often located in neighborhoods with the highest crime rate in a community. In the nation's 100 largest public housing authorities alone, there are an estimated 10,000 gun crimes each year and an average of more than one murder per day by gunfire.

Other parts of the Clinton Administration's gun safety agenda include:

-more-

- A $280 million national firearms enforcement initiative that is part of the President's proposed budget. The initiative would hire 500 new ATF agents and inspectors to target gun criminals, hire more than 1,000 prosecutors at all levels of government, fund expanded crime gun tracing and ballistics imaging systems to catch more gun criminals, fund local media campaigns to discourage gun violence, and expand the development of "smart gun" technologies.

- A $30 million Community Gun Safety and Violence Reduction Initiative that President Clinton proposed in his Fiscal Year 2001 Budget. The initiative, which would be administered by HUD, would fund computerized mapping of gun violence to help law enforcement agencies better protect the public, education and outreach programs to promote responsible safety measures by gun owners, and innovative community activities to reduce both gun crimes and accidents. If Congress approves funding for the initiative, local governments, law enforcement agencies, public housing authorities, community organizations, and other groups would be eligible to compete for HUD grants to support gun violence reduction activities in the communities the Department serves.

- Gun buyback programs around the nation funded by HUD. So far this year nearly $2.6 million in HUD funds have been awarded for buybacks of about 50,000 guns in 80 cities.

###

AGREEMENT BETWEEN SMITH & WESSON AND THE DEPARTMENTS OF THE TREASURY AND HOUSING AND URBAN DEVELOPMENT, LOCAL GOVERNMENTS AND STATES

SUMMARY OF TERMS

Preamble: The city, state, county and federal parties agree to dismiss the parties from the pending suits and refrain from filing suits against the manufacturer parties based on an equivalent cause of action.

SAFETY AND DESIGN

All handguns must meet the following safety and design standards:

- **Second "hidden" serial number**, to prevent criminals from obliterating serial numbers.
- **External locking device** sold with all guns within 60 days.
- **Internal locking device** on all guns within 24 months.
- **Smart Guns -- Authorized User Technology.**
  - Manufacturers commit 2% of annual firearms revenues to the development of authorized user technology.
  - Within 36 months, authorized user technology will be included in all <u>new</u> firearm models, with the exception of curios and collectors' firearms.
  - If top eight manufacturers agree, authorized user technology will be included in <u>all</u> new firearms.
- **Child Safety.** Within 12 months, handguns will be designed so they cannot be readily operated by a child under 6,.
- **Performance test.** All firearms will be subject to a performance test to ensure safety and quality.
- **Drop test.** All firearms will be subject to a test to ensure they do not fire when dropped.

All pistols must meet the following additional requirements:

- **Safety device.** Positive manually operated safety device.
- **Magazine disconnectors** must be available on all pistols to customers who desire the feature, within 12 months.
- **Chamber load indicators** on all pistols, showing whether the pistol is loaded, within 12 months.
- **Large capacity magazines.** New firearm designs will not be able to accept large-capacity magazines that were manufactured prior to September 1994. (Manufacture of such magazines has been prohibited since that date.)

Law enforcement and military exception. If law enforcement agencies or the military certify the need, exceptions to these requirements may be made. Manufacturers will ask that these guns not be resold to the civilian market.

Warnings about safe storage and handling included with all firearms within six months.

Illegal firearms. Manufacturers will not sell firearms that can readily be converted into fully automatic weapons or that are resistant to fingerprints.

SALES AND DISTRIBUTION

Code of Conduct. The manufacturers will sell only to authorized dealers and distributors and allow their authorized distributors to sell only to authorized dealers. Authorized dealers and distributors will agree to a code of conduct. If manufacturers receive notice of a violation by an authorized dealer or distributor, they will take action against the dealer or distributor, including termination of sales to the dealer or distributor. The Oversight Commission will review such actions and have authority to require termination or suspension if warranted.

The code of conduct will require authorized dealers and distributors to:

- **Gun shows:** make no gun show sales unless all sales at the gun show are completed only after a background check.
- **Brady checks:** wait as long as necessary for a completed Brady check showing that the purchaser is not a felon or otherwise prohibited before selling a gun to the purchaser.
- **Safety training for purchasers:** transfer firearms only to individuals who have passed certified safety course or exam and demonstrate to purchasers how to use all safety devices and how to load, unload, and safely store the firearm before completing the sale.
- **Multiple handgun sales:** all purchasers of multiple handguns to take only one handgun from the store on the day of sale, at which point a multiple sales report will be filed with ATF. The remainder of the guns can only be collected after 14 days.
- **Employee training:** require all employees to attend ATF-approved training and to pass a exam on firearms laws, straw purchasers, illegal trafficking indicators, and gun safety.
- **Insurance:** carry liability insurance where available, with a minimum coverage of $1 million for each incident.
- **Inventory control:** maintain an electronic inventory tracking plan within 24 months
- **Security:** implement a security plan for securing firearms.
- **Child access:** require persons under 18 to be accompanied by adults in gun stores or gun sections of stores.
- **Weapons attractive to criminals:** not sell large capacity magazines or semiautomatic assault weapons.
- **Compliance:** provide law enforcement, government regulators, and the Oversight Commission established in this Agreement with access to documents necessary to determine compliance; cooperate fully in the Agreement's Oversight mechanism.
- **Crime gun traces**: maintain an electronic record of all ATF trace requests and report trace requests to manufacturers.
- **Indicted dealers:** forgo firearms sales to licensed dealers known to be under indictment.
- **Straw purchasers:** not to make sales to straw purchasers.

Manufacturer commitments. Manufacturers will:

- Provide quarterly sales data to ATF.
- Not market guns in any manner designed to appeal to juveniles or criminals.
- Refrain from selling any modified/sporterized semi-automatic pistol of type that cannot be imported into U.S.
- Reaffirm policy of not placing advertisements in vicinity of schools, high crime zones, and public housing.
- Implement a security plan for securing firearms.
- Designate an officer to ensure compliance with the Agreement.

Corporate responsibility for crime gun traces. If an authorized dealer or distributor has a disproportionate number of crime guns traced to it within three years of sale, the manufacturers will take action, including possible termination or suspension, against the dealer or distributor. The Oversight Commission will review such actions and have authority to require termination or suspension if warranted.

Oversight Commission will be established and empowered to oversee implementation of the Agreement. The Commission will have five members selected as follows: one by manufacturers; two by city and county parties; one by state parties; one by ATF. The Commission's powers will include the authority to review compliance with the design and safety requirements, review the safety and training program for dealer and distributor employees, review manufacturer actions against dealers or distributors that violate the Agreement or have a disproportionate number of crime gun traces, and require suspension or termination if warranted.

Role of ATF. To the extent consistent with law, ATF will work with manufacturers and the Oversight Commission to assist them in meeting obligations under the Agreement. ATF will notify the Oversight Commission of certain violations of the Agreement by distributors and dealers if it uncovers such violations.

Ballistics Imaging. Within six months, if technologically available, manufacturers will fire all firearms before sale and will enter the digital image of the casings in a system compatible with the National Integrated Ballistics Identification Network and accessible to ATF. This will enable law enforcement to trace crime guns when only the bullets or casings are recovered.

Access 2000. Manufacturers shall participate in ATF's Access 2000 program, which establishes electronic links with ATF and enables high-speed tracing of crime guns.

Legislation. The parties will work together to support legislative efforts to reduce firearm misuse and the development of authorized user technology.

Education trust fund. Upon resolution of all current city, state, and county lawsuits, manufacturers will dedicate 1% of overall firearms revenues to an education trust fund

Most favored entity. If other manufacturers enter agreements with more expansive design and distribution reforms, and those manufacturers, along with the manufacturer parties to this

Agreement, account for fifty percent or more of United States handgun sales, the manufacturer parties to this Agreement will agree to abide by the same reforms.

Enforcement. The Agreement will be entered into and enforceable as a court order and as a contract.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DEPARTMENT OF THE TREASURY

FOR IMMEDIATE RELEASE
March 17, 2000

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FEDERAL RESERVE AND TREASURY DEPARTMENT ANNOUNCE RULES ON MERCHANT BANKING ACTIVITIES

The Federal Reserve Board and the Secretary of the Treasury jointly announced on Friday their approval of an interim rule governing the merchant banking activities of financial holding companies.

The interim rule implements the merchant banking provisions of the Financial Modernization Act. The interim rule includes provisions on record keeping and reporting: risk management practices; holding periods for merchant banking investments; corporate separateness and limits on involvement in management; and limits on exposure of financial holding companies to merchant banking investments. The interim rule is effective today.

The Board also today announced that it is seeking public comment on a proposed rule, developed in consultation with the Secretary of the Treasury, that would govern the regulatory capital treatment for equity investments in nonfinancial companies held by bank holding companies. The proposed rule would generally impose a 50 percent capital requirement on merchant banking investments and certain similar investments.

Comments will be accepted on the interim rule and the capital proposal until May 22, 2000. The interim rule and the capital proposal will be revised as appropriate after the comments are reviewed.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 8:00 AM EST
Text as Prepared for Delivery
March 20, 2000

TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT REMARKS TO THE TAX EXECUTIVES INSTITUTE MIDYEAR CONFERENCE WASHINGTON, DC

When I spoke to your annual conference last fall, I mentioned the creative dialog that has long existed between Treasury and TEI. Now that I have had six more months on the job, I have had an opportunity to observe this first hand, and that is why I appreciate the opportunity to meet with you today.

I want to touch on some issues of current interest. We were disappointed by the outcome of our government's appeal of the World Trade Organization's decision holding that our foreign sales corporation regime constituted an impermissible export subsidy that violates two WTO agreements. We are working with interested members of Congress, on a bipartisan basis, and with the business community, to devise solutions to this problem. Our goal continues to be a level playing field for United States companies, and I appreciate the assistance members of this organization have offered us on this issue.

Corporate Tax Shelters

After a series of corporate tax shelters were closed by either legislation approved by Congress or guidance issued by the Treasury and the IRS, the Administration included in its FY 2000 Budget proposals, released in February of 1999, a series of legislative proposals designed to curtail the proliferation of corporate tax shelters on a before-the-fact basis. At this point we had concluded that the ad hoc approach of past years, in which Congress or the Administration took action to close specific shelters as they came to our attention, was simply not working. We were outgunned and outmanned by tax shelter merchants. We were told that for each shelter we took action against, ten more were escaping without our notice. The situation was, and is, just like that of the mythical Hydra, except recast in the context of modern corporate finance. We were losing the battle for the integrity of our system of corporate taxation, and preservation of the corporate tax base.

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We felt we had to do something to deter all participants in the shelter industry from designing, promoting, or entering into transactions devoid of economic substance, rather than wait for a plain brown envelope to be slipped over the government transom, or for a questionable transaction to show up on audit, with the prospect of years of litigation ahead, with the concomitant waste of productive resources for all parties. It is suggestive of the scale of the problem that specific shelters that have been addressed over the last few years were estimated to have cost collectively close to $80 billion over ten years.

Our goal then was to raise awareness that there was a problem and to explore the nature of the problem. Now, it is clear that there is widespread agreement and concern among tax professionals that the corporate tax shelter problem is large and growing, and we feel it is time to move ahead.

Curtailing the problem of transactions lacking economic substance requires that the tax shelter cost/benefit analysis be changed in a manner that affects the dynamics on both the supply and demand side of this 'market' -- making it a less attractive one for all participants -- 'merchants' of abusive tax shelters, their customers, and those who facilitate the transactions. We have a strategy for moving forward, consisting of three mutually reinforcing parts:

First, increasing disclosure of corporate tax shelter activities. On February 28, Secretary Summers announced the issuance of new regulations requiring promoters to register confidential corporate tax shelters and to maintain lists of investors, and requiring corporate taxpayers to disclose large transactions that have characteristics common to tax shelters. By definition, what we cannot see, we cannot act upon. Thus, a central element of our approach in curbing tax shelters is bringing these transactions to light and taking remedial action where appropriate. These regulations constitute a first step -- significant but quite incomplete.

Second, administrative reforms within the IRS and strengthened rules governing the practice of accountants and lawyers before the IRS. The administrative reforms, carried out as part of the IRS modernization mandated by the Restructuring and Reform Act of 1998, will provide the IRS with a more centralized approach to identifying, tracking, and taking appropriate action against abusive transactions.

The rules governing the practice of accountants and lawyers before the IRS are outdated. As Secretary Summers announced recently, the Treasury Department hopes to have a series of meetings with accountants and lawyers to discuss the problem of shelters and what might be the appropriate modifications to Circular 230. We see updating these rules as an essential step in improving upon the culture of compliance. We also were encouraged when Chairman Roth recently said he believed Congress should look at when a taxpayer may rely on a tax opinion.

Third, new legislation

- to strengthen and better coordinate disclosure requirements;
- to provide increased penalties for abusive transactions,
- to codify the economic substance doctrine; and

- to provide consequences to all the parties to the transaction (e.g., promoters, advisors, and tax-indifferent, accommodating parties).

As I mentioned before, there is a great deal of consensus regarding significant aspects of the Administration's proposals on corporate tax shelters. Penalties, disclosure, and consequences for promoters are all core elements of a solution to the problem. We also, however, believe that codification of the economic substance doctrine is necessary.

Marketing of and participation in corporate tax shelters flourish today because:

- taxpayers and their advisors may be simply ignoring case law doctrines;
- an evaluation of case law has convinced the taxpayer and the taxpayer's advisers that a particular doctrine of case law does not apply because the facts of the transaction under consideration are distinguishable from prior cases; and
- taxpayers may be relying on decisions that are more favorable to the result they desire, while ignoring decisions less favorable (the "least common denominator" factor).

Increasing the substantial understatement penalty does little good if there is no finding of substantial understatement. Without codification of the economic substance doctrine, or a similar step, penalties will not be imposed on participants in shelters prior to a finding by the courts. Thus, we believe that enactment of only increased penalties and disclosure requirements, and consequences for promoters and tax-indifferent "enablers," will not place the bar for participation in abusive transactions high enough. As long as potential sanctions against abusive transactions are dependent upon successful litigation, taking years and requiring the devotion of immense private- and public-sector resources that could be deployed far more productively and positively in other endeavors, the corporate tax shelter industry will thrive.

The consequences of not taking action are grave. As Secretary Summers said recently, "Failure to address this issue in a meaningful way would put the fairness and efficacy of our tax system at risk."

Taxation of Electronic Commerce

I would like finally to discuss electronic commerce tax issues. As most of you know, the Supreme Court decided, several years ago in the context of mail order sales, that it would impose an unconstitutional burden on interstate commerce for one state to ask a seller physically located in another state to collect a sales tax on its behalf. As a result, purchases made on the internet, although in fact still subject to a tax (called a "use tax"), in practice enjoy virtual tax-free treatment because the seller is not obligated to collect the tax - as long as the seller does not have a physical presence such as a store or a warehouse in the purchaser's jurisdiction

Internet businesses point to the burden that would be imposed if they were forced to collect sales taxes. They make the claim -- and rightly so -- that the enormous complexity of current state and local sales and use taxes would indeed make it excessively burdensome for a remote seller to have to collect taxes in multiple jurisdictions. The current network of sales taxes is too diverse and complicated -- there are over 6,000 separate taxing jurisdictions, each with its own definitions and rules. On the other hand, many state and local government officials are increasingly concerned that if electronic commerce continues to grow exponentially, as it has been, the tax base that supports our schools, our police and firemen, and other essential services will be seriously undermined. Sales taxes currently account for about one third of state and local tax collections. Main-street businesses are concerned about the unequal playing field -- if a book bought in one of their stores is taxed while one bought on-line is not taxed, in most cases it will grow increasingly difficult for them to compete.

I would like to highlight some components of the position the Administration representatives will be taking today in Dallas at the final meeting of the congressionally-appointed Advisory Commission on Electronic Commerce. We strongly support the growth of internet commerce. Electronic commerce and the associated explosion of the information technology sector are key sources of economic growth in the United States and around the world. Since issuing his, *Framework for Global Electronic Commerce,* in July 1997, the President and the entire Administration have focused on creating a policy environment in which this new medium of commerce will flourish.

This Commission was charged with examining some of the most difficult issues associated with this evolving marketplace. The three Administration representatives participated fully in the Commission's deliberations. They assessed the issues before the Commission on the basis of two fundamental principles:

- the internet and electronic commerce should not be subject to discriminatory taxes; and
- tax policy in this area should be neutral, nondiscriminatory, simple, certain, fair, and flexible.

Applying these principles, the Administration representatives reached the following conclusions regarding the key issues before the Commission:

1. <u>Internet Access Taxes</u>

The current statutory moratorium on internet access taxes should be made permanent. It is critically important to encourage access to the internet. Because taxes on internet access would create an obstacle to Americans' access to the internet, and in turn, their ability to participate in electronic commerce, these taxes should be prohibited permanently.

2. <u>Multiple and Discriminatory Taxes</u>

The current statutory moratorium on multiple and discriminatory taxes should be extended. Multiple or discriminatory taxes on electronic commerce plainly would hinder its development. This existing statutory moratorium should be extended and final protections against such taxes should be crafted after the States develop simplified sales tax systems.

3. <u>State and Local Taxes on Telecommunications</u>

States and local governments should work expeditiously, in conjunction with the private sector to simplify and reform these taxes. The goal of these reforms should be neutrality in taxation of telecommunications as compared to other sectors, as well as neutrality in taxation of providers of similar telecommunications services. This complex web of taxes is in large part a relic of the time when telecommunications services were a regulated monopoly -- taxes on these services were passed on to consumers through the regulated rate structure. Today, telecommunications on all levels have moved from regulated monopoly to competitive market, and the line between telecommunications and other types of services becomes less clear every day. State and local governments have recognized the pressing need for reform in this area. We believe that these governments, working in cooperation with businesses and consumers, can accomplish this goal.

4. <u>State and Local Sales and Use Taxes</u>

- States and localities should develop a simplified sales and use tax system within two years. During that time, the current rules governing this area -- which were established by the Supreme Court -- should remain unchanged.

- While this simplified system is being developed, States and localities should engage in a dialogue with businesses and consumers to address the complex and difficult issues regarding the application of these taxes to internet sales. These issues include:

  - fairness to both internet businesses and "bricks and mortar" businesses;
  - significantly reducing or eliminating the cost to businesses of collecting these taxes;
  - the effect of these taxes on the international competitiveness of U.S. internet companies;
  - whether lower-income Americans are paying, or will be required to pay, an unfair and disproportionate share of state and local sales taxes;
  - ensuring protection of consumers' privacy; and
  - the feasibility of imposing and collecting sales taxes on goods delivered digitally over the internet (software, music, etc.).

Following development by the States of a simplified system, this issue should be addressed based on these considerations: The application of sales tax laws to internet transactions raises difficult issues. It is essential that we maintain the vitality of electronic commerce, which is one of the primary drivers of our economy. It also is essential that States and localities have the revenues they need to provide citizens with essential services -- such as education, police, and fire protection. Addressing this issue is extraordinarily complex for a number of reasons, including the fact that policymakers do not now have all of the information they need. Everyone agrees, however, that simplification is the key. So the States should proceed in developing a model act that produces real and effective simplification, while discussion on the other issues continues. While the model act is being developed, which is estimated to take two years, the current sales and use tax rules, established by the Supreme

Court, should remain in place; they plainly have not hindered the growth of electronic commerce. In the event of any change in existing rules governing the application of sales and use taxes to internet sales, there should be full accountability so that citizens of each State can determine the appropriate consequences of any projected increase in revenue.

5. Federal Excise Tax on Communications

Phase out of this tax is a worthy policy objective and should be considered, but must be weighed against other worthy objectives including other proposed tax reductions, and must not be allowed to threaten the important priorities of maintaining fiscal discipline, paying down the national debt, extending the solvency of Medicare and Social Security, and maintaining core government functions such as health care and education.

This tax contributes more than $4 billion in revenue per year and $52 billion over ten years. Because of this substantial budgetary impact, phasing out of the tax cannot be considered in a vacuum, but must be weighed against other important priorities.

6. Customs Duties

The current moratorium on customs duties on electronic transmissions should be made permanent. Maintaining the moratorium on customs duties on electronic transmissions is a goal shared both domestically and internationally. There is a broad recognition that imposing customs duties on electronic transmissions would only undermine the ability to attract the investment and technology necessary to build and develop an e-commerce infrastructure.

7. International Taxation

Any taxation of electronic commerce should be neutral, nondiscriminatory, simple, certain, fair and flexible. Regarding international taxation of electronic commerce, our view is that any taxation of electronic commerce should be neutral and non-discriminatory. We must continue to work within the Organization for Economic Cooperation and Development (OECD) to agree on tax rules based on the principle of neutrality and other core principles, such as simplicity, certainty and fairness. We must also continue to work with non-OECD member countries. Global electronic commerce should not be impeded by globally inconsistent tax treatment and thus a global consensus must be reached regarding appropriate taxation.

* * *

As I just noted, the Advisory Commission on Electronic Commerce is holding its last meeting today. Representatives from industry and state and local governments have had opportunities to share their views on issues associated with electronic commerce. I would like to take this opportunity to recognize the hard work of many of the state and local representatives serving on the Commission, particularly the efforts of Governor Michael Leavitt, Chairman of the NGA.

Despite the Administration's substantial efforts to form a compromise position, through many meetings, telephone conference calls and exchanges of ideas, the commissioners have apparently reached an impasse and have not yet been able to bridge their differences in order to make recommendations to Congress. As a result, negotiations on a comprehensive set of recommendations that Governor Leavitt and others had crafted has stalled. This set of recommendations was based on a proposal endorsed by the business commissioners. We hope they can be revived, since there can certainly be no valid recommendations that do not take into consideration the needs of the state and local governments that provide essential civic services such as education and public safety -- just as there can be none that do not take into consideration the interests of all businesses, internet as well as bricks and mortar. We hope a compromise can be reached in the eleventh hour in Dallas.

Fundamentally, the issue of how e-commerce will contribute to the building and maintenance of our 21st century public services and institutions is a critical one. We cannot rush to judgment or let political rhetoric impede the resolution of these complex issues. We intend instead to continue our efforts to help the states and the business community arrive at a principled consensus.

Thank you.

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- A more global prosperity will promote peace: from Bosnia to East Timor, from Rwanda to Palestine, successful economic development is absolutely necessary if our core objective of a stable peace is to be achieved.

- A more global prosperity will promote human freedom. Nations that succeed economically are much more likely to become democratic, and avoiding debilitating disease, learning to read and working with dignity are also crucial components of human freedom.

- A more global prosperity will produce better trading partners for the US: time and again, as poor countries grow richer, they become the fastest growing markets for US goods and services. Already, developing countries account for some 42 percent of US exports. And as we saw in 1998, adverse economic and financial developments in the developing world today can put our own prosperity at risk.

- A more global prosperity will help us to meet the profound challenge of protecting the global environment. Environmental degradation spawned by dire poverty is a global concern. A more shared prosperity creates the will and the way for these problems to be overcome.

Successful efforts to promote economic development around the world may well be the most cost-effective investment that we can make in forward defense of US core interests. To be sure, the world has changed in profound ways: most importantly, with the spread of market ideologies and a more truly global private capital market. And so the development institutions must change and adapt as well. But their special benefit, their special efficiency; their special ability to lever funds - because they are both financed multilaterally and able to borrow from the private markets - all make them especially important tools today. Each dollar that we contribute to the MDBs leverages $45 in lending programs in the economic success stories of tomorrow.

Ten years ago, when the Berlin Wall came tumbling down, the United States defense budget was more than $100 billion higher, in real terms, than it is today. Reasonable people can debate how much of this dividend ought to have been invested in the ongoing protection of our interests that support for the International Financial Institutions (IFIs) and other foreign operations provides. But it would be difficult to make the case that the right answer is to spend a good deal less on these things than we did before. In fact, we are spending 20 percent less in real terms today on foreign assistance overall - and 40 percent less on the MDBs.

Strong support for the MDBs has been central to a vision of closer integration between nations and shared global prosperity upon which United States foreign and economic policy has been based for the bulk of our postwar history. We believe that this vision has served our country extraordinarily well, and that it will serve us even better in the new century to come. But we equally believe that the investments we make in these institutions need to be deployed as effectively as they possibly can. How best to achieve this will be the focus of my remarks today.

I. The Global Development Experience

What are the main lessons of the global development experience? This is an area that has been pored over by economists and others for decades and will continue to be debated in the future. There are no simple blue-prints or magic bullets. But there are certain truths that I think now command broad consensus. These truths can usefully frame our approach to development finance over the years ahead, and thus can frame an approach to the role of the world's primary development institutions.

Countries shape their own destiny.

When the will to reform and grow is present, outside support can make a powerful difference, as the experience of international assistance to Korea and Taiwan in the 1960s - and successful recent reformers such as Poland and Uganda - will attest. But it cannot substitute for that domestic commitment where it is lacking. The international community cannot want reform and stability more than a country's own government and its people do.

Growth is both necessary and a long way toward being sufficient for reducing in poverty.

In every region of the world and at every time in history, experience has confirmed what common sense would suggest: that the best way for a country to reduce poverty is to make itself richer. The world's single greatest success in reducing poverty has been in the fastest growing Asian economies. Even with the recent crises, the number of Asia's people living on less than a dollar a day has fallen by nearly 40 percent, or 175 million, since 1990. In Sub-Saharan Africa, average income per head is today somewhat lower than it was in 1970. And the number of people living in such extreme poverty has risen by 20 percent, or nearly 50 million in the past decade alone. One study estimates that simply raising the average incomes of the developing countries by one percent today would result in 53,000 fewer child deaths.

While it is surely right to emphasize that policies or pre-existing conditions can make growth more or less effective in reducing poverty, discussions of poverty reduction that do not lay primary emphasis on economic growth are like Hamlet without the prince. They are a symptom of what is morally urgent to avoid in development debates: the substitution of attractive sentiment for clear-eyed analysis. Quite simply, rapid, market-led growth is the most potent weapon against poverty that mankind has ever known.

Market-oriented open policies work best

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. In this new global economy, the power of open markets and market-based incentives are larger and clearer than ever before. And the failings of more centralized means of coordinating economic activity have become that much more apparent. Globally the message has been repeated again and again: that successful national economic development depends above all on the promotion of open markets and the institutions and policies that are needed for markets to function well.

Public investment in people and a sustainable environment is crucial to growth

Experience in Asia and elsewhere has taught us that investments in people, especially basic health and education for women, and in long-term environmental sustainability, especially the efficient use of energy, are crucial to lasting economic growth and poverty reduction. In that sense, respect for people and for the environment are central to successful economic policies. And a framework that reflects the rights of people is one in which every child's right to go to school rather than labor in the fields or workshops is protected - and every worker's right to core labor standards is promoted.

Assistance must be conditioned to be effective

Economic history has provided a clear natural experiment regarding the efficacy of finance without conditions. Again and again, natural resources windfalls have financed presidential planes and palaces and entrenched official corruption, while producing very little in the way of lasting economic benefits. Countries with the windfall external finance provided by abundant natural resources, such as Nigeria, Venezuela, Burma, and Zambia have failed to progress economically - indeed, in several cases have fallen back. Similarly, the record of official assistance that is provided for political reasons, rather than the assessment of appropriate conditions for development, is hardly encouraging.

Recent research has raised another important difficulty in the provision of assistance: the problem of fungibility. International resources provided for a certain purpose, like health or education, often substitutes for domestic spending on these priorities, meaning that the incremental impact of project lending is something very different than the project that appears on the MDBs' books. Developmental lending cannot have a developmental impact if it simply supplants public resources. The basic lesson we need increasingly to bring to bear is that MDB lending needs to be conditioned on government commitments to reform, sound analyses of budgets and public institutions and a clear assessment of how development lending will affect the share of national resources invested in core development priorities.

These observations point up a number of priorities for MDB lending: that support should reward and strengthen domestic efforts to reform rather than try to force those efforts into existence; that it must support, not supplant the development of open markets and the growth that open markets can bring; that it should be conditioned on an effective framework for promoting market-led growth; and that conditions should focus on the essentials, including critical public investments.

Let me spend the rest of my time outlining in greater detail the implications of these principles for the primary development institutions going forward.

II. More Effective Policies in the Poorest Countries

What the MDBs do to promote development in the poorest countries is without doubt their most morally urgent and important work. These are countries that cannot expect to mobilize private flows on a consistent basis and can expect to be reliant on official flows for some time to come. This is the right moment for a fundamental reassessment of how these flows are provided.

The Highly Indebted Poor Countries initiative is a one-off attempt to clear away the residue of the Cold War and the mistakes of the past, and offer these countries a fresh start. It is essential that we make it work. Debt write-offs need to be planned as a one-time event, not conceived as part of a cycle. That makes effective programs essential.

Again, this is not an area for simple solutions. While hard and fast rules are tempting, inevitably conditions will differ and policy will need to balance conflicting considerations and demands. However, we believe that an effective approach will require a shift in the emphasis of the MDBs in these countries in four areas.

First, a more human-centered approach and new division of labor between the IMF and the World Bank

Development lending exercises always rely on estimates of gaps, financing needs and measured indicators of performance. In light of recent experiences in the HIPC countries, we believe that these need increasingly to move from a predominant focus on macro-economic issues to more clearly emphasizing the nature of human needs.

As a condition for receiving debt relief and new loans, HIPC countries are now required not only to have established a solid track record of reform, but also to produce forward-looking Poverty Reduction Strategies. We cannot lose sight of the fact that effective growth strategies go a long way toward reducing poverty, and ineffective growth policies will go a long way toward making poverty more entrenched. At the same time, we must work to ensure that growth has the greatest possible impact on poverty. 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. They will and must form an important part of the basis for a satisfactory financing framework for countries going forward.

Over time we expect this to become the primary responsibility of the World Bank given its expertise and mandate in global poverty reduction. For its part the IMF needs to have a continuing role in macro-economic evaluation, because no plan is viable if there is not a financing framework that is sustainable.

Second, increased selectivity

We recognize that there will inevitably be a tension between helping the countries most in need and helping those who will use MDB resources well. But as the World Bank has recognized in implementing IDA 12, increasingly we need to shift the balance in favor of providing support to countries where donors can have confidence that assistance will be well used - and more often denying it where they are likely to be misused, particularly in cases of corruption.

Too often, need-based aid rewards failure and penalizes success. Where countries are using concessional resources effectively, they should be expected and encouraged to attract more of such flows. By some estimates, this would more than triple the effectiveness of development assistance in reducing global poverty.

Third, better procedures for the interaction between countries and the IFIs

The greatest shortage in the poorest countries is of institutional capacity. And frankly, too much of that scarce capacity is absorbed in dealing with the international development institutions. Too often, the need for conciliation between the institutions and countries results in a dialogue where the response to failure is promises more ambitious than the ones that failed before, setting the stage for future failure - and yet greater escalation of goals.

This suggests a need for a smaller number of clear and measurable performance targets, set more realistically, and then more vigorously adhered to. An important part of this shift will be developing more effective mechanisms within the MDBs for evaluating when targets and intermediate benchmarks have been met, including a stronger commitment to disbursing in stages and more frequent formal reviews.

There also needs to be a stronger presumption of publication of all relevant loan documents and transparency in the relevant operations at the national level, so that the domestic population, outside investors and donors can readily track disbursements and results.

Fourth, additional concessional resources

Financing debt relief in a way that reduces the existing stock of concessionary resources will not expand the budget capacity of countries to invest in core development priorities. We should not delude ourselves that HIPC or the reforms that it has inspired will translate into better basic schooling or health care in these countries without a genuine increase in the pool of concessional resources.

This makes it especially urgent and important for Congress to help the US play our proper part in this effort, by enacting the President's supplementary appropriations request and the funding contained in his FY2001 budget. The earlier version of HIPC saved Uganda $45 million in debt service in 1999 alone. This relief has helped it to double enrollment in primary education in just two years. Under the enhanced HIPC, Uganda would receive an estimated $650 million more, in net present value terms, to invest in these basic priorities. But these benefits for Uganda and other countries will remain in question if the United States does not do its part.

III. Development Assistance in the Emerging Market Economies

Emerging market economies, where there are private financial flows, involve different issues than those posed in the poorest countries. It needs to be recognized that these countries have a certain capacity to repay debt, and therefore a certain borrowing capacity. If that capacity is absorbed by international financial institutions without their programs actually raising borrowing capacity, the result is to crowd out private sector finance. Therefore, the role of MDB lending in these countries should be confined to the areas where they can increase total financing capacity.

There are a number of such areas and it is crucial to the interests of the United States and the international community as a whole that they be a basis for lending by the MDBs: crucial because of these economies' increasing systemic significance; and crucial because these are still the countries in which the majority of the world's poorest people live. For all the progress that we have seen, one third of the people in Latin America live on less than $2 a day - and more people live on that income in China and India than the entire population of Sub-Saharan Africa. Private financial markets alone will not finance needed investments in basic health and education and rural infrastructure. And appropriately targeted MDB finance can itself catalyze additional private investment.

We therefore categorically reject the idea that these countries should not be in a position to obtain the additional finance, expertise and insurance against instability that access to MDB programs can provide. But we equally recognize that the work of the MDBs and their private sector lending arms in such economies needs to be more tightly focused on adding value that the private markets cannot.

This suggests an emphasis on three types of circumstances:

- Where the ability that the public sector development institutions uniquely have to impose conditions that promote key public investments - including basic health and education and other social spending - that the existing stock of private and public resources cannot fully provide. These public goods also include financial sector and capital market development, and the legal and institutional infrastructure indispensable for functioning societies, such as the rule of law, clearly stated and fairly applied. In this context we share the hope and expectation of the World Bank that it will meet its own targets for social sector lending in the future and will more effectively seize the opportunities that exist to promote durable institutional reforms.

- Where the involvement of the MDBs can attract genuinely additional private flows: for example, where MDB co-financing arrangements and guarantees can enhance the credibility of developing country borrowers in the eyes of investors. In this context we believe that the MDBs should continue to explore more innovative ways of catalyzing private capital flows to such countries, where these can be pursued within strict and clear guidelines that safeguard the financial position of the institutions.

- Where the MDBs can help to counteract temporary disruptions or limitations in a country's access to private capital due to contagion or other external shocks. To this end, they should be taking advantage of the substantial recent improvement in global financial conditions to develop a large, more flexible, contingent financial capacity to respond to deteriorations in investor confidence in emerging markets down the road.

This last is an important point. Financial emergencies are times when there is more social and human distress, and as we have seen, they are times when more structural changes can take place in 18 months than would otherwise been achieved in a matter of years. They are not times for the usual rhythms of development lending. It is thus noteworthy that despite the professed urgency of the situation, the World Bank was only able to deliver $260 million to the Asian crisis economies in FY1998, the most acute year of the crisis. While this in part reflects legitimate concerns about domestic absorptive capacity and the potential diversion of funds in some countries, it will be important for the World Bank to find ways to upgrade substantially its capacity to respond rapidly and effectively to such emergencies in the future.

At the same time, recent experience suggests that it will be increasingly important for the World Bank and others to ensure that their lending is genuinely productive, and that it enhances rather than reduces a country's capacity to grow out of a need for official funds. The IFC, especially, will need to guard against the risk of supplanting, rather than supporting, private sector finance.

Accordingly:

- We believe there should now be a strong presumption that the MDBs have no business lending in countries for sectors in which private financing is available on appropriate terms, and where there is a risk that such lending will simply supplant private financing. These include credit programs serving mainly large-scale industry, support for large-scale infrastructure in cases where these would have no significant environmental benefit, and lending in oil, telecoms and other sectors where the private sector is already active.

- In a world in which the MDBs are promoting policies that succeed in increasing the capacity for emerging market economies to borrow in private markets, it is natural that the share of MDB lending that is devoted to these economies should decline in volume over time and become more closely linked to the end-goal of graduation. The MDBs cannot expect to live in a world where they can count on successive capital increases for their non-concessional loan windows. They should incorporate this reality in their identification and management of lending in middle income countries going forward.

For all MDB lending in emerging market economies, I believe that a review of pricing policies is appropriate. Pricing needs to avoid excessive encouragement of public rather than private sector reliance. It also needs to assure that given the enormous needs for concessional finance, the MDBs are in as strong a position as possible to contribute resources to concessional programs and to the creation of global public goods. A review based on these principles will, I suspect, lead to higher prices in many cases.

IV. An Enhanced Focus on the Provision of Global Public Goods

Increasingly, as integration proceeds, the world is confronting a broad class of problems that cross borders and defy solution by individual governments and markets. Whether it is money laundering and financial crime, global warming, new killer diseases, or reductions in global bio-diversity - the solutions to these problems will be global public goods, requiring concerted global cooperation.

We believe that the World Bank and other development institutions potentially have an enormous contribution to make in helping to push the frontier of international efforts to promote these kinds of goods, many of which will especially benefit developing countries. And examples such as the Consultative Group on International Agricultural Research (CGIAR), the Green Revolution and the campaign to defeat river blindness in Africa have all shown that determined and innovative forms of collaboration among the World Bank and other official bodies can deliver results.

Let me highlight two areas where we believe that the MDBs should be looking especially hard for new kinds of responses:

Collective efforts to promote the creation and dissemination of medical knowledge

Infectious diseases such as HIV/AIDS, tuberculosis, malaria and respiratory and diarrheal disease, are responsible for almost half of all deaths of people under 45 worldwide. Life expectancy is now actually declining in a host of African countries struck by HIV/AIDS, with adult mortality rates in the worst affected countries now twice what they were even a few years ago. 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. Yet the WHO estimates that only perhaps 10 percent of the $50-60 billion spent worldwide each year on health research is directed toward diseases that afflict 90 percent of the world's population.

President Wolfensohn has led a major effort to put this high on the Bank's agenda in recent years. And President Clinton has proposed a number of important bilateral efforts that he hopes will catalyze further efforts by other bilateral and private donors. But we agree with President Wolfensohn that the MDBs - the World Bank, especially - has an important contribution to make. One crucial part of the problem is that there is not a visible market for new treatments and vaccines in many of the countries worst affected. And the World Bank can do much to create a market, through its lending programs and the policies they support. That is why the President is proposing that the MDBs dedicate a further $400 million to $900 million each year of their concessional lending for basic health care to immunize, prevent and treat infectious diseases in the poorest countries. We expect to be intensifying global efforts in this area at the upcoming G8 Summit in Japan.

Collective efforts to promote global environmental security

The Global Environmental Facility is a promising development. But going forward we believe the MDBs need to exercise far greater leadership in finding ways for the international community to better protect the global resource base we all share.

For example:

- In helping countries to combat deforestation. The World Bank potentially has a key role in helping those who live in or near the forests to move beyond slash and burn agriculture, to manage the harvest of the forest, and above all to develop new ways to earn a better living and ensure their own well being. A major World Resources Institute forest policy reform study, to be released on Wednesday, shows that under the right conditions, World Bank structural adjustment lending has been effective in supporting domestic constituencies for reform against entrenched vested interests in unsustainable logging. These experiences need to inform the MDBS as they work to develop even more effective ways of engaging in these issues in the future.

- In supporting global efforts to find ways to combat global warming that are responsive to the economic needs of the poorest. We cannot develop the global economy unless we protect the global resource base. Nor can we expect the developing countries to meet the short-term costs of this kind of protection on their own. To this end we believe that the MDBs need to expand their efforts to lead in the development of markets for cleaner and more energy efficient technologies; small-to-medium scale renewable energy sources; and testing methods to internalize the true costs of energy in assessments of project viability.

V. A Better Division of Labor Across the System

Husbanding well the world's scarce flow of concessional resources for development must mean improved coordination and division of labor more broadly – across the panoply of international institutions, bilateral donors and NGOs that have come to be called the "development community".

Devising the right framework will be a strenuous, ongoing effort – and certainly, will not be the prerogative of a single country or institution. But ensuring clarity of mission and purpose must be a core reform priority at a time when there are, for example, 18 international donors and 65 individual programs operating in Bolivia in the health sector alone.

I have already mentioned the new division of labor that we envisage between the IMF and the World Bank in the poorest countries going forward, with the World Bank more clearly taking the lead. Clearly, this is not an area where precise distinctions and road-maps can be drawn. But three further imperatives seem to us to be important:

- First, as President Wolfensohn has recognized in the Comprehensive Development Framework, the World Bank - through the new approach embodied in the PRSPs - has potentially a unique role to play in helping to bring the threads of global development activities and expertise together. This can also help to ensure that every institution or donor or NGO is playing to its strengths. Among other things, it must also mean bringing donor coordination to the center of official assistance activities.

- Second, this improved framework must be based on a recognition that no MDB or other part of the system can or should aspire to be and do everything for all countries. It makes no sense for the regional development banks or, indeed, the World Bank to build and maintain a capacity to undertake every kind of activity relevant to development in every country in which they could play a role. In that context we believe that it should increasingly be recognized that the World Bank should take prime responsibility for core program-lending - with responsibility for certain kinds of project lending possibly more often devolved to the regional development banks where they have proven expertise.

- Third, the World Bank will need to deliver on its commitment to accept a more coordinating or supporting role to other agencies where the circumstances require it. This will be especially true in post-conflict situations and other areas where UN agencies and bilateral donors, often working with NGOs with more grant-based assistance, have a clear comparative advantage. President Wolfensohn has rightly called for a renewed emphasis on serving the client - and of course, high quality client service includes telling them when they would be better off going to somebody else.

VI. Concluding Remarks: The US Stake in Truly Global Development

It has been a touchstone of the Clinton Administration since its earliest days that globalization is happening, and that it offers limitless potential for raising the living standards and quality of life of every American and the global population as a whole. At the same time, we have also stressed that making economic integration work means making it work for people.

- That is why we have worked to keep our economy strong, to invest in people, and to ensure every American in this new economy is equipped to seize the opportunities that this new global economy presents - and manage the risks.

- That is why we have worked internationally to build the right kind of open global marketplace, the right kind of international financial architecture, and the right kind of framework for the promotion of core labor standards, environmental protections and other values that are important to Americans.

When the President talks about "putting a human face on the global economy" he means all of these things. But if there is one further message of my remarks today it is that it also means working to ensure that all countries and peoples have a chance to be included.

The greatest source of squalor and inequality in the global economy today is not integration but exclusion: a failure to grow and integrate that keeps large populations trapped on the bottom rung. If we are serious about preventing a global race to the bottom, we must be serious about helping those at the bottom to rise up. And US support for strong and effective international development institutions can and must play a crucial role in our efforts to achieve this. Thank you.

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TREASURY ACTING ASSISTANT SECRETARY FOR TAX POLICY JONATHAN TALISMAN TESTIMONY BEFORE HOUSE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON OVERSIGHT

I am pleased to have the opportunity this afternoon to discuss with you the Administration's program of tax incentives designed to foster the revitalization of economically disadvantaged American communities. I would like to begin by acknowledging the efforts of the Chair, the Speaker, other Members of Congress from both parties, and the panelists this afternoon, all of whom have sought to provide assistance to America's economically distressed communities.

Despite the unprecedented prosperity that is evident in so many places in the United States, not all communities have fully shared in this affluence. In some communities, good jobs are still scarce, new construction is a rarity, and infrastructure, including schools, shows its age. The Administration believes that, in this period of great prosperity, no American communities should be left behind. Accordingly, we are dedicated to insuring that the residents of inner cities and less affluent rural communities, just like those Americans living in the Silicon Valley or along the Dulles Corridor, have full access to the opportunities which symbolize the promise of the new economy.

The Administration's budget proposals include almost $17 billion in new tax incentives over ten years to ensure that we satisfy this commitment. We view tax policy as one, but by no means the only, tool at our disposal in achieving this important goal. To be most effective, tax measures must be integrated into a broader program designed to foster community development. Thus, in conjunction with targeted tax incentives, the Administration has proposed major initiatives on the appropriations side to insure that all communities have access to the tools that will be critical to success in the new economy. For example, the Administration has proposed to expand the Community Development Financial Institutions Fund to bolster the capacity of specialized, locally-based financial institutions serving economically disadvantaged areas, and has launched BusinessLINC to provide smaller firms in these communities the know-how and business opportunities enjoyed by their larger counterparts. Other initiatives in the President's FY2001 budget would fund community technology centers train teachers in the use of computer and internet technology, and encourage private-public partnerships to provide basic banking services to individuals and businesses in economically-disadvantaged areas.

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Current Law

Investment, by both the private and public sectors, is the key to economic development. Only with investment by the public sector in infrastructure and the private sector in businesses can real economic opportunity be created. Since 1993, the Administration, together with Congress, has sought to direct both types of investment to disadvantaged communities through the designation of Empowerment Zones and Enterprise Communities. Since 1993, 125 communities have been selected on the basis of their comprehensive strategic revitalization plans to receive special tax incentives and other resources.

Empowerment Zones

The Omnibus Budget Reconciliation Act of 1993 authorized a demonstration project under which nine Empowerment Zones, six in urban areas and the remainder in rural areas, were designated through a competitive application process. State and local governments nominated distressed geographic areas, which were selected based on the strength of their strategic plans for economic and social revitalization. The incentives available in the Empowerment Zones designated under the 1993 Act remain available through the end of 2004.

By virtue of this designation, businesses located in these zones became eligible for a number of tax incentives specifically designed to encourage new businesses and business growth in these areas of acute need. These include a wage credit, preferential tax treatment for certain depreciable property, and special tax-exempt bond financing.

The wage credit provides a 20 percent subsidy on the first $15,000 of annual wages paid to residents of Empowerment Zones by businesses located in these communities. By lowering the cost of labor, the wage credit encourages new businesses to locate in zones, and encourages those businesses already there to expand, providing good jobs and opportunities for self-sufficiency for zone residents.

Further incentives are intended to encourage investment machines, computers and other tangible business property. Empowerment Zone businesses are allowed to expense the cost of property up to an additional $20,000 above the amounts generally available under Section 179 of the Internal Revenue Code, rather than depreciate such property over time. This additional expensing lowers the cost of the capital investment necessary to support the creation of high-paying jobs in the new economy.

Finally, the original legislation permitted the issuance of a new class of tax-exempt private activity bonds to provide subsidized financing to projects in Empowerment Zones. By lowering the cost of capital, tax-exempt financing makes projects that would not otherwise be undertaken by the private sector economically viable, leading to the creation of new jobs in disadvantaged areas.

The landmark 1993 legislation also made these zones eligible for a variety of programs administered by other agencies, including the Department of Housing and Urban Development and the Small Business Administration. These programs complement the tax incentives, and contribute further to the revitalization of these economically disadvantaged communities

The Empowerment Zone legislation has been expanded during recent years. The Taxpayer Relief Act of 1997 provided for the designation of two additional Empowerment Zones. The Act also authorized the designation of twenty "Round II" Empowerment Zones using slightly expanded eligibility criteria. Although businesses in the "Round II" Empowerment Zones may not claim a wage credit, the available tax incentives are otherwise very similar to those provided in the original nine zones and remain, under current law, in place through the end of 2008.

Since environmental hazards often pose a major obstacle to the privately-financed revitalization of both urban and rural areas, the 1997 legislation provided an additional incentive to help private firms clean up such contamination. Under this provision, businesses in Empowerment Zones may expense, and therefore recover immediately for tax purposes, the costs of remediating certain environmental hazards in the soil and ground water. This favorable tax treatment, which is also available in some other economically depressed areas, reduces the expected return necessary to justify investments that often benefit the entire community.

Enterprise Communities

In addition to the Empowerment Zones, the Omnibus Budget Reconciliation Act of 1993 also provided for the designation of 95 Enterprise Communities, at least thirty-five of which would be located in rural areas. Businesses in these communities are entitled to the same favorable tax treatment of environmental remediation expenses and tax-exempt financing benefits as those in the Empowerment Zones.

District of Columbia Incentives

A special set of incentives, bearing a broad resemblance to those provided to the Empowerment Zones, were enacted in 1997 to foster the redevelopment of the District of Columbia. The Taxpayer Relief Act of 1997 included tax incentives for both residents and business to locate in the District of Columbia. A $5,000 income tax credit for first-time home purchasers was intended to attract new homeowners to the District. A second set of incentives, similar to those provided to the original nine Empowerment Zones, was intended to encourage the establishment of new businesses in the District as well as new investment in existing enterprises.

Subject to certain income restrictions, the $5,000 credit is available to first-time purchasers of a principal residence in the District of Columbia who have not owned houses in the District during the year preceding the purchase. Although the credit was initially available only for property purchased through the end of 2000, subsequent legislation in 1999 extended the incentive through the end of 2001.

Other tax incentives offer a range of economic inducements to businesses operating in the more economically disadvantaged parts of the District. With the exception of a provision related to the sale of capital assets, these incentives are available only to businesses located either within the boundaries of the D.C. Enterprise Community, or located in census tracts elsewhere in the

District where the poverty rate exceeds 20 percent. These areas are collectively known as the D.C. Zone. With certain minor adjustments, businesses in the Zone may claim the same wage credit, expensing of certain capital investment, expensing of environmental remediation costs, and tax exempt bond financing, as businesses in the original nine Empowerment Zones. In addition, capital gains realized from the sale of certain assets are excludable from the income of the seller, whether a business or individual. For the purposes of this provision alone, the DC Zone is expanded to include all census tracts in the District in which the poverty rate exceeds 10 percent.

Native American Wage Credit

Unfortunately, many residents of Native American communities continue to struggle economically, even during these times of prosperity. The Indian Wage Credit provides a powerful incentive for job growth in these communities. Employers may claim an Indian employment credit equal to 20 percent of the qualified wages and employee health insurance costs paid to an enrolled member of an Indian tribe in compensation for services performed on or near a reservation. The aggregate amount of qualified wages and health insurance costs may not exceed $20,000 per person per year. This incentive is now available through 2003.

New Proposals

The President's FY2001 budget proposals, the Administration seeks to leverage the progress that has already been made in revitalizing America's economically disadvantaged communities through the provision of another $17 billion in targeted tax incentives over the next decade. These measures will allow more communities to benefit from the investment that is so important in a technology-driven economy, while offering an innovative approach to the task of attracting patient equity capital to businesses in economically disadvantaged areas.

New Markets Tax Credit

An important priority is the New Markets Tax Credit, a part of the President's broader New Markets Initiative. This tax incentive would help attract $15 billion in equity capital to community-based financial institutions which, in turn, would invest these funds in their communities, spurring the creation of high-quality jobs and, equally important, building lasting links to the new economy.

High technology and service firms at the heart of the new economy have generally sought to locate near other similar enterprises, in places like the Silicon Valley and the Dulles Corridor, so that they may tap a common pool of customers, employees and other resources. Thus these enterprises tend to be highly concentrated geographically, and often not in lower-income areas. The New Market Tax Credit would attract capital, and therefore high-growth industries, to lower-income areas by providing a subsidy to investors. This temporary subsidy will, at least in part, compensate investors for the additional costs involved in establishing operations in locales which have yet to benefit from the strength of the U.S. economy over the past decade and where the presence of other fast-growing firms may therefore be limited.

The New Markets Tax Credit is specifically designed to further the efforts of community-based financial institutions in promoting economic revitalization while encouraging these entities to make the "on the ground" decisions concerning where the need for capital is greatest. Such institutions – including a wide variety of existing or newly-formed community development banks and venture funds – would apply to the Treasury Department for authorization to issue stock (or other equity interests) with respect to which the investors could claim a tax credit equal to approximately 25 percent of the investment, in present value terms. The credit would be claimed in five equal installments, each equal to 6 percent of the original investment, during each of the first five years of investment.

Community development entities selected for a credit allocation would be required to invest the leverage funds by taking equity stakes in, or providing loans to, businesses located in low-income communities. The required investments could be made in a wide range of commercial ventures, the basic requirement being that the business conduct an active trade or business in one or more low-income communities. The selected community development entities themselves would decide which local commercial ventures are likely to produce the greatest social and financial return.

We greatly appreciate the active leadership of Mr. Rangel, Mr. LaFalce and Ms. Velazquez, as well as Senators Rockefeller, Robb, Sarbanes, Kerry, Kennedy and Daschle, in working over the last twelve months to move New Markets Tax Credit legislation forward. Our current budget proposal would, relative to the original design, more than double the amount of capital with respect to which credits could be allocated, raising this amount from $6 billion to $15 billion by providing $3 billion per year from 2001 through 2005.

Empowerment Zones

In addition to the New Markets Tax Credit, the Administration would like to see a further expansion of the Empowerment Zone program, as well as movement towards standardization of incentives across the already-designated zones.

The President's FY2001 budget proposal would extend empowerment zone status for the existing thirty-one designated zones through 2009. At present, these designations expire as early as 2004. Furthermore, the wage credit rate would remain at 20 percent in all zones until 2009. The current set of incentives available in some zones does not include the wage credit, while in other zones this credit phases out over the final three years of designation.

Businesses in all thirty-one zones would be eligible to expense, rather than to depreciate over time, an additional $35,000 in qualified investment property. Under current law, this additional expensing authority in Empowerment Zones is limited to $20,000.

Finally, ten new Empowerment Zones would be authorized, eight in urban communities and two in rural areas. During the period 2002 through 2009, businesses located in these zones would be eligible for the same tax incentives that are available to businesses in the other 31 Empowerment Zones, including the expensing of qualified environment remediation costs and certain tax-exempt financing benefits.

Low-Income Housing Credit

The low-income housing credit has played a vital role in helping working poor people to find affordable, decent housing and in helping to revitalize low-income communities. But affordable rental housing remains in extremely short supply in many communities. Paradoxically, general prosperity can actually exacerbate the shortage of high-quality, affordable housing for low-income workers. Here in the greater Washington area, as in Silicon Valley and the areas surrounding New York City, the problem has become acute as the creation of new jobs has led to a substantial increase in the cost of housing. Many low-income workers must either contend with the inadequate housing stock often found in central cities or reside so far from their jobs that the cost of commuting, measured in both time and money, is staggering. To help address this need, the Administration is proposing an expansion of the low-income housing credit. We also appreciate the leadership on this issue of Mrs. Johnson, Mr. Rangel, and the co-sponsors of H.R. 2400, including Mr. Watkins, Mr. Frost, Mr. Ballenger, Mr. Barcia, and Mr. Isakson.

This tax credit is allowed in annual installments over 10 years for qualifying low-income rental housing, which may be newly constructed or substantially rehabilitated residential units. In order to qualify for the credit, the building owner must receive an allocation from a state or local housing authority, which is counted towards an annual limit for each state.

The per capita credit allocation of $1.25, used to determine the annual state limit, was set in 1986. Since that time, inflation has eroded the value of the cap on low-income housing credit allocations by 45 percent. Most state housing agencies receive qualified proposals for far more low-income rental housing than they can support with available credits. The Administration is proposing an increase in the cap, to $1.75 per capita, and subsequent indexing of this amount for inflation. These measures will subsidize the construction and rehabilitation of additional low-income housing units while allowing the state agencies to choose projects that best meet local needs.

Digital Divide

Access to computers and the Internet -- and the ability to use this technology effectively -- are becoming increasingly important for full participation in America's economic, political and social life. Unfortunately, unequal access to technology by income, educational level, race, and geography could deepen and reinforce the divisions that exist within American society. The Administration believes that we must make access to computers and the Internet as universal as the telephone is today -- in our schools, libraries, communities, and homes.

In recognition of the importance of technology in the new economy, the President's FY 2001 Budget includes a series of tax incentives to insure that residents of disadvantaged communities are able to develop the skills that will be essential for labor market success in the coming years. This initiative, to help "bridge the digital divide", consists of three components. The first is an enhanced deduction for corporate donations of computer equipment to schools and other institutions in disadvantaged communities. Such donations will help to provide these institutions the tools necessary to train residents in new technology. The second is a tax credit for certain corporate payments to schools, libraries and technology centers in Empowerment Zones and Enterprise Communities. This credit will help insure that innovative educational programs, many with a focus on technology, flourish in communities undergoing economic and social revitalization. The final incentive is a tax credit for certain employer-provided education programs in workplace literacy and basic computer skills. This credit is vital in ensuring that our least-educated workers obtain the basic skills necessary for success in the new economy.

The first measure, designed to encourage corporate donations of computer equipment, builds upon and extends a similar provision of the Taxpayer Relief Act of 1997. Under the 1997 legislation, a taxpayer is allowed an enhanced deduction, equal to the taxpayer's basis in the donated property plus one-half of the amount of ordinary income that would have been realized if the property had been sold. This enhanced deduction, limited to twice the taxpayer's basis, was made available to donors for a limited three-year period. Without this provision, the deduction for charitable contributions of such property is generally limited to the lesser of the taxpayer's cost basis or the fair market value. To qualify for the enhanced deduction, the contribution must be made to an elementary or secondary school. The Administration proposal would extend this special treatment through 2004, as well as expand the provision to apply to contributions of computer equipment to a public library or community technology center located in a disadvantaged community.

The second measure is a 50 percent tax credit for corporate sponsorship payments made to a qualified zone academy, public library, or community technology center located in an Empowerment Zone or Enterprise Community. The proposed tax credit would provide a substantial incentive that would encourage corporations to sponsor such institutions. Up to $16 million in corporate sponsorship payments could be designated as eligible for the 50 percent credit in each of the existing 31 Empowerment Zones (and each of the 10 additional Empowerment Zones proposed in the Administration's FY2001 budget). In addition, up to $4 million of sponsorship payments would be credit-eligible in each Enterprise Community. All told, this credit could induce over $1 billion in sponsorship payments to schools, libraries and technology centers, providing innovative educational programs to disadvantaged communities.

The third component of the Digital Divide proposal is a credit to employers who provide training in basic technology skills, English literacy, and other basic education to educationally disadvantaged workers. The credit would be equal to 20 percent of qualified training expenditures, up to a maximum of $1,050 per participating worker. Eleven percent of the labor force has less than a high school education. Their employers may hesitate to provide general education because the benefits of basic technological and other skills and literacy education are more difficult for employers to capture through increased productivity than the benefits of job-specific education. The proposed credit will help workers with low levels of education to improve their job skills and enhance their employment opportunities.

Specialized Small Business Investment Companies

Specialized Small Business Investment Companies play a special role in insuring that businesses in disadvantaged communities have access to capital. Licensed by the Small Business Administration, these partnerships or corporations make long-term loans to, or equity investments in, small business owned by socially or economically disadvantaged entrepreneurs The Administration has proposed in the FY 2001 budget that these entities be allowed greater flexibility with regard to their organizational form, and specifically in transitioning from one organizational form to another without triggering adverse tax consequences. For example, the proposal would also allow C corporations to roll over, without payment of tax on realized capital gains, the proceeds from the sale of publicly-traded securities if these are used to purchase a common stock or partnership interest in a Specialized Small Business Investment Company.

Puerto Rico Economic Activity Tax Credit

The Administration supports extension of the wage-based credit as a more efficient means of promoting beneficial economic activity in Puerto Rico, which is still seeking to recover economically from the repeal of section 936 and, in addition, from the devastating effects of Hurricane Mitch. The Administration views the proposed extension of the credit as providing a means to helping Puerto Rico and its people through this difficult recovery and transition period. To provide a more efficient tax incentive for the economic development of Puerto Rico and to continue the shift from an income-based credit to an economic-activity-based credit that was begun in the 1993 Act, the President's FY 2001 budget would extend and modify the phase-out of the economic-activity-based credit for Puerto Rico by opening it to newly established business operations during the phase-out period and extending the phase-out period through taxable years beginning before January 1, 2009.

Renewal Communities

In the "American Community Renewal Act", Mr. Watts, Mr. Talent, and Mr. Davis, joined by numerous cosponsors from both parties, proposed further expansion and refinement of the use of tax incentives to encourage private sector investment in the revitalization of disadvantaged communities. The full Committee has since adopted a version of this proposal. We are eager to work with members of the Committee, as well as Mr. Watts, Mr. Talent, and Mr. Davis, in ensuring, through the use of targeted tax incentives and other complementary measures, that all American communities share in the Nation's general prosperity.

H.R. 3832, which incorporates provisions originally introduced in the "American Community Renewal Act", would permit the designation of up to 15 Renewal Communities, at least three of which would be located in rural areas. Renewal communities would be composed of contiguous low-income census tracts, with respect to which the State and local government had promised to reduce taxes, improve local services, or reduce government regulation. A number of tax incentives would be available to businesses and individuals located in the Renewal Communities.

Clearly, there is broad agreement between the Administration and Congress on the problems facing low-income areas, and the power of tax incentives to help address these needs. In particular, both the Administration and Congress view increased investment as critical to community redevelopment, and tax incentives as a valuable tool to attract capital to lower-income areas.

H.R. 3832 would provide for additional expensing of certain capital investment in excess of that permitted under section 179 of the Internal Revenue Code, and for the expensing of qualified environmental remediation expenses. In addition, H.R. 3832 provides an extension of the Work Opportunity Tax Credit, with certain adjustments, for businesses located in Renewal Communities. H.R. 3832 would permit a credit against tax equal to 15 percent of the first $10,000 in wages paid, per eligible employee, for the first year of employment. The credit rate rises to 30 percent for the second year of employment. Like the authors of the "American Community Renewal Act", the Administration favors increased expensing authority as a means to encourage capital formation in disadvantaged areas, expensing authority to encourage the remediation of environmental hazards, a wage credit to spur the hiring of residents of distressed communities, and measures to encourage saving by low-income workers.

However, the Administration has concerns with the specifics of certain proposals in H.R.3832. Most notably, exempting from taxation the capital gains on the sale of appreciated assets is not an efficient means to encourage capital formation, and may lead to unintended and undesirable consequences. Potential investors in distressed communities are unlikely to respond to an incentive that provides benefits not at the time funds are committed but only upon the sale of the assets. Furthermore, a reduction in capital gains rates will not provide a meaningful incentive to invest in depreciable property – such as machinery and equipment that is so often thought to spur job growth – since such property is unlikely to increase in value above its original cost. And the ability of taxpayers to deduct interest on borrowing while entirely excluding the gains from the sale of certain property, could create negative tax rates like those associated with the individual tax shelters of the early 1980s. This would result in an expansion of non-productive investments that benefit neither the targeted area nor the country as a whole. Finally, exempting capital gains from taxation could have the perverse effect of encouraging disinvestment, as owners of appreciated assets accelerate their liquidation of investments to receive the tax benefit while this is available.

The Administration has supported – and continues to support in the President's FY2001 budget -- the basic concept of development accounts. But we have concerns with the particular provisions related to Family Development Accounts included in H.R. 3832. First, allowing an up-front deduction for contributions to a savings account, and an exclusion for earnings and withdrawals from that account, sets a bad precedent by effectively assessing a negative rate of tax on such savings. Second, allowing eligible low-income individuals who make contributions to their own Family Development Accounts, and non-eligible individuals who make contributions to one or more other individuals' Family Development Accounts, to claim an above-the-line deduction for their contributions would create complexity and significant administrative problems.

The Administration supports the structure contained in the Assets for Independence Act, under which Individual Development Accounts established on behalf of low-income individuals receive matching grants from the Federal government and non-profit entities. The Department of the Treasury, in conjunction with the Internal Revenue Service, recently issued guidance clarifying the favorable tax treatment under current-law rules of matching grants received by a low-income individual who establishes such an Individual Development Account.

In addition, the Administration's Retirement Savings Account proposal, a substantial initiative in the FY 2001 budget, provides another model for powerful incentives that should encourage savings by low-income workers while avoiding unintended, and potentially serious, negative interactions with certain facets of the pension and tax systems. We are now actively discussing the structure of this program with representatives from the private sector, including employers and financial service providers. We have been pleased at their generally favorable response thus far, and hope that these conversations will help us further refine and improve the Retirement Savings Account concept.

Notwithstanding these concerns, the Administration looks forward to working with Members of Congress to craft a set of measures that will help reach our common goal of promoting the revitalization of America's most economically disadvantaged communities as efficiently and quickly as possible.

I would like to thank Mr. Houghton, Mr. Coyne and the members of the Subcommittee for providing the chance today to discuss these important issues. I hope that, working together, we can insure that all Americans share in the current prosperity and have even greater opportunity in the future. This concludes my prepared remarks. I would be pleased to respond to your questions.

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TREASURY UNDER SECRETARY GARY GENSLER HOUSE BANKING SUBCOMMITTEE ON CAPITAL MARKETS, SECURITIES AND GOVERNMENT SPONSORED ENTERPRISES

Mr. Chairman, Representative Kanjorski, Members of the Subcommittee, I appreciate the opportunity to testify on the supervision and regulation of government sponsored enterprises. Your bill, H.R. 3703, the *Housing Finance Regulatory Improvement Act*, focuses on the supervision and regulation of three government sponsored enterprises (GSEs) whose original purpose was devoted to housing. I will divide my remarks into four parts: first, a general discussion on the background of GSEs; second, a description of the GSEs' role in the capital markets; third, a discussion of Treasury's general approach to mitigating systemic risk in capital markets; and fourth, the Administration's view on how aspects of the Baker bill meet this general approach.

The nation's interest in a vital housing market is strong. Congress originally created the housing GSEs -- the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System -- to improve consumers' access to mortgage credit. These three GSEs have done much for home ownership in this country. Fannie Mae and Freddie Mac, along with government-owned Ginnie Mae, helped create a market for mortgage securitization. Credit from Federal Home Loan Banks, along with the creation of the Federal Housing Administration, helped banks and thrifts to establish the long-term, fixed-rate mortgage in the 1930s and 1940s.

Currently, we are enjoying the longest period of economic growth in our history. Our financial markets have unquestionably been major contributors to America's economic success, and our financial sector continues to be the world leader. Our capital markets are the most competitive and efficient in the world. They generally operate without the government providing differential treatment among financial institutions.

Government sponsored enterprises are an exception to this general approach because the government provides them benefits in order to affect market outcomes. The potential benefits that GSEs bring to a particular market must be balanced, therefore, against potential risks to the financial system and potential effects on market competition.

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Reconsideration of this balance is appropriate from time to time and as financial conditions change. The GSEs have significantly increased both their size and their market share. They have now become the dominant institutions in the secondary mortgage market, and constitute an increasing percentage of the overall credit markets. At the same time, our government's fiscal discipline is leading to less Treasury debt. Together, these factors have caused the GSEs to occupy a more central role in capital markets than ever before.

At the same time, technology and innovation have revolutionized capital markets. Markets are broader and more efficient than they have ever been. Our capital markets have developed increasingly sophisticated techniques for securitizing mortgages and other assets, broadening the holders of mortgages and lessening the need for government intervention.

The housing markets and the overall economy are currently strong. With no particular problems on the horizon, this is an ideal time to review the supervision and regulation of the GSEs.

What are GSEs?

GSEs are privately owned but federally chartered companies, created by Congress to help overcome barriers to the flow of credit into certain segments of the economy.[1] Fannie Mae and Freddie Mac are publicly traded companies. The Federal Home Loan Banks are cooperatives owned by their member banks and thrifts.

The federal government created the Federal Home Loan Bank System in 1932 to provide credit to illiquid thrifts and to encourage the development of long-term, fixed-rate mortgages. Freddie Mac was created, and Fannie Mae was transformed from a government corporation to a GSE, during the turbulent financial period of the late 1960s and early 1970s. One of the primary goals of creating Fannie Mae and Freddie Mac was "... to provide supplementary assistance to the secondary market for home mortgages by providing a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing."[2]

During the 1970s, Fannie Mae provided this assistance primarily by buying mortgages while Freddie Mac concentrated on securitizing mortgages. As there was not a significant secondary market for conventional mortgages at the time, the two GSEs provided assistance to the traditional originators and holders of mortgages, such as thrifts and mortgage banks. By the 1980s, however, securitization had broadened the potential holders of mortgages. Pooling mortgages into securities brought many more potential purchasers into the secondary markets for home mortgages. Freddie Mac and Fannie Mae helped lead the development of this important market.

With rising interest rates in the early 1980s, Fannie Mae's cost of funds rose above the interest rate it was earning on its long-term, fixed-rate mortgages. This interest rate mismatch was similar to that faced by the savings and loan industry. Fannie Mae became insolvent on a mark-to-

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[1] Today there are five GSEs: Fannie Mae; Freddie Mac; the Federal Home Loan Bank System; the Farm Credit System; and Farmer Mac. A sixth GSE, Sallie Mae, is in the process of being fully privatized.

[2] See Federal National Mortgage Association Charter Act, sec. 301(a) (amended 1989); See also S. Rep. 91-761, 91st Cong., 2d Sess. 7 (April 7, 1970) (explaining Freddie Mac's mission: "The Corporation (Freddie Mac) would be a supplement to, and would have parallel authority to, the Federal National Mortgage Association under its expanded authority proposed by title II of the bill.").

market basis. A combination of legislative tax relief, regulatory forbearance, and a decline in interest rates allowed Fannie Mae to grow out of its problem. Also, the Farm Credit System was in serious financial trouble in the late 1980s, and the federal government ultimately provided financial assistance to the System.

In 1989, Congress restated Fannie Mae's and Freddie Mac's charters, directing the GSEs to "provide stability" and "ongoing assistance to the secondary mortgage market."[3]

Since the early 1990s, each of the three housing GSEs has significantly expanded the size and scope of its activities. The FHL Banks now provide both banks and thrifts with advances. In addition, the FHL Banks now directly hold approximately $170 billion in investments. Similarly, Fannie Mae and Freddie Mac now derive significant earnings from purchasing their own mortgage-backed securities in the market. Fannie Mae and Freddie Mac now hold about $850 billion of mortgages and mortgage-backed securities in portfolio, plus another $80 billion in non-mortgage securities.

Today, the GSEs are large, sophisticated financial institutions that retain and manage credit, interest rate, and liquidity risks. They are owned by the private sector. In these ways, the GSEs are very similar to other large financial institutions. As financial institutions, the GSEs earn money in four basic ways:

Credit Guarantees. Fannie Mae and Freddie Mac purchase mortgages and issue mortgage-backed securities on which they guarantee the timely payment of principal and interest. This credit enhancement is similar to what Ginnie Mae and FHA do for securities backed by FHA mortgages. As of year-end 1999, guarantees by Fannie Mae and Freddie Mac totaled $1.2 trillion.[4] On average, they charged roughly 19 basis points (nineteen one-hundredths of a percentage point) per dollar of security guaranteed. The GSEs bear the credit risk of individual borrowers defaulting on their mortgages after losses covered by private mortgage insurance. While in the mid-1990s losses averaged 5 to 6 basis points, last year they subtracted only about 1 basis point from the 19 basis points charged.

Mortgage Investments. All three housing GSEs purchase whole mortgages, mortgage-backed securities, and other mortgage-related securities in the capital market. By the end of 1999, the three GSEs held about $920 billion of such assets. The GSEs take on three forms of risk with these investments -- credit risk, interest rate risk and liquidity risk. An important component of interest rate risk relates to forecasting the behavior of borrowers in prepaying their mortgages. In addition, the history of financial markets shows that the significance of liquidity risk increases with size and leverage.

Similar to other financial institutions, the GSEs choose to hold and manage risk rather than attempting to completely hedge it. They thereby seek to increase returns to their shareholders. Thus, the GSEs earn a spread between the interest rate on their mortgage investments and their own

[3] Financial Institutions Reform, Recovery, and Enforcement Act. Pub. L. No. 101-73, sec. 731(m)(1), 103 Stat. 183, 435 (August 9, 1989) (codified at 12 U.S.C. sec. 1716).
[4] This figure excludes securities held in portfolio by Fannie Mae and Freddie Mac, as the GSEs are the beneficiary of their own guarantee.

below-market cost of funds. This spread has recently been approximately 80 basis points per dollar of assets for Fannie Mae and Freddie Mac, and about 50 basis points for the Federal Home Loan Banks.

Advances. The Federal Home Loan Banks make secured loans, called advances, to the approximately 7,000 banks and thrifts that are System members. These subsidized funds are frequently used by the member to make further mortgage loans, but are also used for non-housing purposes. The Federal Home Loan Bank System Modernization Act liberalized the uses to which small institutions can put those advances. As of year-end 1999, outstanding advances totaled $396 billion, on which the FHL Banks earned about 20 basis points per dollar of advance.

Non-Housing Investments. All three housing GSEs invest in non-housing assets such as asset-backed securities, commercial paper, and other money market instruments. As of year-end 1999, the GSEs held about $180 billion in non-housing assets. Generally, the spreads earned on these investments are smaller than the GSEs' other business lines, ranging between roughly 10 and 30 basis points per dollar of asset.

Benefits of GSE Status

The GSEs' growing role in the capital markets is aided by the numerous benefits derived from their federal charters. The GSEs receive no funds from the federal government, and the government does not guarantee their securities. GSE status, however, does provide a set of benefits that are not available to other financial institutions. These statutory benefits are listed in an appendix to my testimony.

Taken together, these statutory benefits provide the GSEs with three advantages in financial markets: lower funding costs; the ability to operate with less capital; and lower direct costs. These advantages have been identified by past government studies of the GSEs, notably studies by the Congressional Budget Office, the General Accounting Office, and the Treasury Department in 1996, and studies by these same agencies in 1990 and 1991.

Funding. First, the GSEs are able to borrow money at lower interest rates than other financial institutions. Over the last six months, the GSEs borrowed at approximately 40 basis points less than AA-rated banking and financial firms on one- and five-year debt. The spread to AA-rated financial firms is particularly relevant since Standard and Poor's gave Fannie Mae and Freddie Mac a "risk-to-the-government" rating of AA- in 1996, the last time such a rating has been done. Even if one compares to AAA-rated banking and financial firms, the advantage still averaged almost 30 basis points. They also borrow at approximately 18 basis points below three-month LIBOR, which represents the rates at which banks generally obtain inter-bank funding. These spreads may widen or shrink over time. What remains true, however, is that the GSEs operate with a significant funding advantage over other private companies in equal or better financial condition.

Leverage. Second, GSEs operate with less equity capital per dollar of debt than other financial institutions. Fannie Mae and Freddie Mac have roughly $32 of debt for each dollar of capital. The FHLBanks have roughly $19 in debt per dollar of capital. In contrast, per dollar of capital, large banks have about $11.50 of debt, thrifts have $12.50 in debt, and the five largest securities firms have approximately $25 in debt.

Lower direct costs. Third, GSEs receive direct cost savings from their charters. In 1999, the GSEs saved approximately $280 million by being exempt from SEC registration. In addition, Fannie Mae's and Freddie Mac's exemption from state and local taxes was worth approximately $690 million for 1999, based on the GAO's 1996 estimate that this exemption saved those GSEs about 8 percent of net income.

These funding, leverage and cost advantages are particularly significant to the GSEs because of the markets in which they operate. The U.S. capital markets are the most competitive and efficient in the world. Relatively small advantages, even those measured in single basis points, over time can allow firms to dominate their markets.

While a portion of these benefits is passed on in lower mortgage rates, the rest of the cost reductions provide higher returns to GSEs' shareholders. Studies conducted by Treasury, CBO, and GAO over the past ten years concluded that the GSEs retain a significant amount of their federal subsidy. Although those estimates have not been updated recently, the high return on equity of the publicly traded GSEs in part suggests that this pattern continues. Between 1995 and 1999, Fannie Mae and Freddie Mac's average return on equity was about 24 percent. In comparison, over that same time period, large banks' average return on equity was 15 percent, large thrifts' average return was 12 percent, securities firms averaged 17 percent, and the largest insurance firms averaged 12 percent.

GSEs in the Capital Markets

The advantages of GSE status have also enabled the GSEs to grow rapidly and gain an increasing share of the capital markets. The GSEs now control a central position in the mortgage market and an increasing share of the U.S. debt markets.

<u>Size</u>

The $1.4 trillion of GSE debt is large on any relative scale. It is now roughly the size of the entire municipal bond market – the outstanding debt of the fifty states and localities that issue publicly traded debt. The GSEs' debt of $1.4 trillion is now more than one-half of the $2.7 trillion of outstanding privately held marketable Treasury debt.[5] Adding the $1.2 trillion in GSE-guaranteed mortgage-backed securities to the mix, GSE involvement in the credit market is approaching the size of the Treasury market.

<u>Expected growth</u>

Based upon recent trends and growth forecasts, GSE debt may double to $3 trillion by 2005. With the government's continued fiscal discipline, GSE debt is forecast to surpass privately held marketable Treasury debt in the next three years.

[5] This is the most relevant measure of Treasury debt for comparisons of market size, as it excludes amounts held by the Federal Reserve and non-marketable securities such as Savings Bonds and those held by municipalities.

As the Treasury market declines in size, financial markets will be able to make a smooth adjustment. Investors and hedgers will be able to switch to other securities and derivatives, including those of GSEs. In this environment, the GSEs have been promoting their debt securities as an alternative market benchmark. Like other large firms, the GSEs see benefits in having fewer, more liquid issues of their debt. Such efforts could lower the GSEs' funding costs and increase their returns to shareholders. In addition, futures contracts on Freddie Mac and Fannie Mae debt securities began trading last week. These are the first contracts on individual private sector debt securities to trade on the futures exchanges.

The Federal Reserve has principally used Treasury securities and repurchase transactions on Treasury securities to carry out monetary policy. Although the Federal Reserve does not currently purchase GSE debt securities, it has done so in the past and in recent years increasingly has used their debt as collateral for repurchase agreements. Furthermore, in response to liquidity needs spurred by Y2K concerns, the Federal Reserve began to take GSE-guaranteed mortgage-backed securities as collateral in repurchase agreements.

Share of Mortgage Market

The GSEs have become the dominant institutions in the secondary mortgage market. Over the last decade they have grown over four-fold, from just over $300 billion in size to $1.4 trillion. As of year-end 1999, Fannie Mae and Freddie Mac either owned or guaranteed roughly 63 percent of all outstanding conforming, conventional mortgages. Their retained portfolio of mortgages currently represents 26 percent of outstanding conforming, conventional mortgages.

To the extent that the GSEs now finance a significant portion of their sector of the mortgage market, the willingness of a GSE to purchase a mortgage has become a far more significant factor in deciding whether to originate that mortgage. The GSEs' automated underwriting systems are increasingly becoming the means by which originators decide to lend. This technology will make the process more efficient. In the long run, however, this trend may result in less diversity in credit decisions and less price competition.

Ownership of GSE Debt by Depository Institutions

GSE debt also has become a significant portion of the assets of the banking system. Banks held over $210 billion in GSE debt at mid-year in 1999. This constituted just under 4 percent of total bank assets and over one-third of total bank capital. Banks held 75 percent more GSE debt than their holdings of Treasury securities. In addition, banks held over $355 billion in mortgage-backed securities guaranteed by the GSEs.

To protect the exposure of banking institutions, current law places limits on an individual bank's credit exposure to any one entity. National banks may hold no more than 10 percent of their capital in the corporate bonds of any one issuer or lend unsecured more than 15 percent of their capital to any one borrower. Most state banks are subject to similar limits. Among all debt securities issued by private companies, however, only GSE debt securities are exempt from this investment limit.

Principles for Mitigating Systemic Risk

As the GSEs continue to grow and to play an increasingly central role in the capital markets, issues of potential systemic risk and market competition become more relevant. In 1997, Treasury established an Office of GSE Policy in order to monitor these issues.

Treasury's general approach to mitigating systemic risk in capital markets emphasizes the role of the private sector. The public sector has three roles: creating an environment in which market discipline can work effectively; promoting the maximum degree of transparency; and maintaining the competitiveness of the system as a whole. For institutions where the public has a special interest - for example, depository institutions carrying federal deposit insurance - further government involvement such as on-site examinations and capital standards is appropriate.

Promoting market discipline means crafting government policy so that creditors do not rely on governmental intervention to safeguard them against loss.

Transparency is the necessary corollary to market discipline. The government cannot impose market discipline, but it can enhance its effectiveness by promoting transparency. Transparency lessens uncertainty and thereby promotes market stability.

Promoting competition in financial markets lessens systemic risk. The task of public policy must be to ensure the stability and integrity of the market system. In any sector of the financial market, the dominance of one or two firms can lessen competition and the efficiency of the market pricing mechanism. In addition, the entry of a subsidized financial institution into a market may motivate other firms to take on greater risks and weaken their operating results.

We also recognize the important role this Committee has played in addressing risk in the capital markets. Most recently, the Committee reported out a hedge fund bill supported by the President's Working Group on Financial Markets.

H.R. 3703

Mr. Chairman, I appreciate your efforts to highlight these issues and would now like to turn to your legislative proposal, which takes various steps to accomplish these goals.

<u>Promoting Private Market Discipline</u>

H.R. 3703 contains several provisions designed to promote private market discipline.

H.R. 3703 repeals the housing GSEs' conditional line of credit with the Treasury. Congress first authorized the Secretary of the Treasury to lend to the housing GSEs decades ago. The dollar amounts of these lines of credit are now a mere fraction of the GSEs' actual borrowings. For example, since its line of credit was established at its current level in 1957, Fannie Mae's mortgage holdings have increased 320 times in size. Each of the GSEs has gone from being a small, relatively unknown borrower in the capital markets to being among the largest debt issuers in the world. Any function the lines perform at this point is purely symbolic. Repeal of the line of credit would be consistent with the congressional requirement that all GSE securities carry a disclaimer that they are not obligations of the U.S. government. Thus, as part of a package of reforms, we would support repeal of the line of credit.

The bill also repeals the Federal Home Loan Banks' so-called "superlien". A law adopted in the midst of the thrift crisis treats a Federal Home Loan Bank's secured, but not perfected, interest in any collateral as having a priority over any other secured, but not perfected, interest in that same collateral. Because the Banks need not take the legal steps necessary to perfect, they typically place a general, or "blanket," lien on most or all of a member's mortgage assets. If the member fails, the combination of the superlien and blanket lien places a Federal Home Loan Bank in a position superior to other secured creditors who have not perfected their interests. Repealing the superlien would restore market discipline by increasing the Banks' incentives to distinguish among their members with regard to credit risk. This in turn would reduce risk to the deposit insurance fund and taxpayers.

For the same reasons, we believe that the Committee should consider repealing a provision of current law that requires the federal banking agencies to provide confidential bank examination ratings to the Federal Home Loan Banks. No other lender possesses this information. We believe that GSEs, just like any other private sector financial institution, should not have access to confidential governmental examination data.

H.R. 3703 provides new authority to appoint a receiver to resolve a troubled GSE. This provision grants the GSE regulator powers comparable to other regulators of government chartered companies. For example, the Comptroller of the Currency can appoint a receiver for national banks. The availability of this authority would contribute to market discipline and enhance stability in the event there were ever a market strain.

Increasing Transparency

H.R. 3703 contains several provisions that increase transparency.

The bill allows the regulator to make public information that it determines would increase the efficiency of the secondary mortgage market or the housing finance system. This provision could enhance transparency. In crafting such language, however, it would be appropriate to recognize that some data is proprietary and may not be appropriate for public disclosure.

The bill also requires the GSEs to obtain an annual credit rating from nationally recognized statistical rating organizations. Such ratings could improve transparency and market discipline by giving investors an independent view of the GSEs' financial condition. It would also be a useful outside tool for the regulator. In determining such ratings, the bill specifically requires the ratings agencies to consider that the United States government does not guarantee the GSEs' obligations. Current law authorizes OFHEO to obtain ratings. We believe this proposal is an improvement over current law, as it requires annual ratings and specifically sets a standard for such ratings.

Promoting Market Competition

H.R. 3703 also contains provisions that are designed to preserve market competition, reducing the potential for subsidized competitors to distort financial markets. Limiting the new activities of the GSEs also has the potential to limit their scale.

The bill sets up a mechanism whereby the regulator would have authority to approve new activities. We have some concern that the notice and comment procedures for such approvals could interfere with the ability of the enterprises to innovate, while leaving the regulator to interpret a rather vague standard. We believe that it is appropriate for Congress, the chartering authority, to provide clear guidance about what activities the enterprises' charters allow and how broadly they should be interpreted. For example, to what extent does Congress wish the GSEs to expand from their current housing finance business into general consumer finance or mortgage origination?

Limiting the non-mission investments of the housing GSEs could also increase their focus on mission-related activities. Such an action could enhance accountability for the GSEs' benefits, and improve market competition.

Other Restrictions

Exposure Limits

The bill highlights an important issue – the potential for problems at one financial institution to cause instability in the financial markets or at other institutions. As I noted earlier, GSE debt obligations are exempt from banks' investment securities limits. We believe that Congress should seriously consider the best way to repeal such exceptions, including a sufficient transition period to prevent any market disruption.

Further Regulatory Authority

H.R. 3703 also addresses the regulatory structure for the GSEs. We believe that there is an appropriate regulatory oversight role with respect to the GSEs. First, oversight is appropriate to determine whether government sponsored enterprises carry out their public mission, as Assistant Secretary Apgar will later explain. Second, there is also a role for oversight of their financial condition. Such regulatory role should reflect, however, the fact that GSEs are private sector firms with uninsured liabilities.

We believe that any regulator charged with oversight of the financial condition of the GSEs must have a clearly defined and limited mandate. The bill grants the GSE regulator greater flexibility in setting capital standards than current law permits. We support such flexibility, though Congress may wish to provide the regulator greater guidance on the goals of capital regulation in the GSE context.

We believe that the standard for regulation and the tools available to the regulator are issues of primary importance. But the identity of the regulator is important as well. We agree with you, Mr. Chairman, that it may be appropriate to have common regulators for the three housing GSEs. We also believe that supervision of GSEs should be a duty of the Executive Branch of government, which is charged with economic policy, including banking and housing policy. Responsibility for regulating financial condition could be placed with an agency responsive to those in the Executive Branch who oversee the soundness of the financial system. Experts in housing could supervise mission.

That said, we would not wish for regulatory reform to interfere with current efforts by existing regulators. For example, we support the efforts of the Office of Federal Housing Enterprise Oversight to finalize its risk-based capital rule and the Department of Housing and Urban Development to finalize its affordable housing goals. Any regulatory consolidation should allow this effort to be completed without interruption.

In any regulatory scheme, there may be important interactions between regulating mission and regulating financial condition. Congress can best balance these interests by giving the regulators clear guidance as to the mission of the GSEs and the standard for regulatory oversight. Furthermore, although the three housing GSEs share a common overall goal – increasing the availability of credit for housing – the charter of the Federal Home Loan Banks mandates a different business from the charter of Fannie Mae and Freddie Mac. Each GSE should be focused on those market failures they were intended to solve. By clearly specifying the mission of each GSE and the regulatory standards for their financial health, Congress can best promote housing finance while providing for financial regulation for these GSEs.

Conclusion

Mr. Chairman, the economy and the financial markets are strong. With no particular problems on the horizon, this is an ideal time to review the supervision and regulation of the GSEs. The GSEs play a central role in the nation's housing finance and debt markets. Thus, your Committee is providing a valuable service by thinking through the best framework for supervision and regulation of these enterprises. These are important matters of public policy that require balanced, thoughtful review by all interested parties.

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APPENDIX A

The following benefits of GSE status are contained in the GSEs' charter acts and other laws:

- Their debt and mortgage-backed securities are exempt from registration with the Securities and Exchange Commission.
- The GSEs are exempt from state and local corporate income taxes.
- The GSEs have a line of credit from the Treasury that authorizes Treasury to purchase up to $2.25 billion of Fannie Mae's and Freddie Mac's obligations and up to $4 billion of the Federal Home Loan Bank System's obligations.
- Banks are permitted to make unlimited investments in GSEs' debt securities, whereas there are limits placed on their investments in any other company's debt securities.
- GSE securities are eligible as collateral for public deposits and for loans from Federal Reserve Banks and Federal Home Loan Banks.
- GSE securities are lawful investments for federal fiduciary and public funds.
- GSEs are authorized to use Federal Reserve Banks as their fiscal agents, including issuing and transferring their securities through the book-entry system maintained by the Federal Reserve.

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TREASURY SECRETARY LAWRENCE H. SUMMERS TESTIMONY BEFORE THE HOUSE BANKING COMMITTEE

Chairman Leach, Ranking Member LaFalce, Members of the Committee, I am pleased to have this opportunity to discuss the ongoing reform of the international financial institutions, which I know is of considerable interest to the members of this committee and other members of Congress.

I would like to address five issues today:

- First, the case for strong United States support of the international financial institutions (IFIs).

- Second, the important steps that the Administration has taken in recent years to strengthen the international financial architecture and the IFIs.

- Third, our agenda for reform at the IMF.

- Fourth, our agenda for reform of the international development institutions, particularly the World Bank.

- Fifth, some initial reflections on the Report produced recently by the IFI commission, both the majority and the dissents thereto.

I. The Need for Strong International Financial Institutions in the New Global Economy

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

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institutions were founded more than fifty years ago at Bretton Woods, and it is both right and urgent that the IMF and the other IFIs change along with it.

What has not changed, in this new environment, is the US stake in these institutions. Indeed, it is greater than ever in a more integrated, market-based world. The core case for the U.S. support for the IFIs rests on the core case for the U.S. supporting increased prosperity in the developing world and increased global integration.

That case has three pillars.

- First, it advances our core values and humanitarian goals: countries that are helped to succeed economically are much more likely to become democratic, and their people more likely to avoid debilitating disease, to learn to read and to work with human dignity.

- Second, it promotes US economic and commercial interests. Already the developing world accounts for more than 40 percent of U.S. exports and that will increase. Growth in the developing world raises the demand for our exports. And the IFIs support policy changes, such as reduced tariffs in Mexico and opening up the Indian economy that enormously benefits U.S. producers.

- Third, it promotes our national security. From the experience of Germany in the 1930s to Bosnia and Africa in more recent times, history teaches us that conflicts are most likely in situations of economic distress - when populations turn their frustration to nationalist leaders because of a lack of a sense of economic of economic opportunity. Our ability to create a successful economic development strategy around the world reduces the likelihood of conflicts that we would otherwise be drawn into.

In their lending the MDBs support all three of these core American interests - at a cost to American taxpayers that is less than one half of one percent of our budget, and much lower than it was in the early 1990s.

Ten years ago, when the Berlin Wall came down, the United States defense budget was more than $100 billion higher, in real terms, than it is today. Reasonable people can debate how much of this dividend ought to have been invested in the ongoing protection of our interests that support for the IFIs and other foreign operations provide. But it would be difficult to make the case that the right answer is to spend a good deal less on these things than we did before. In fact, we are spending 20 percent less in real terms today on foreign assistance overall - and 40 percent less on the MDBs.

To be sure, the world has changed in profound ways: most importantly, with the spread of market ideologies and a more truly global private capital market. And so the IFIs must change and adapt as well. But their special benefit, their special efficiency; their special ability to lever funds - both multilateral and private - all make them especially important tools today. 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.

- Each dollar that we contribute to the MDBs leverages $45 in lending programs in tomorrow's economies.

- 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 US and global economy.

Strong support for the IFIs has been central to a vision of closer integration between nations and shared global prosperity upon which United States foreign and economic policy has been based for the bulk of our postwar history. We believe that this vision has served our country extraordinarily well, and that it will serve us even better in the new century to come. But we equally believe that the investments we make in these institutions need to be deployed as effectively as they possibly can. 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.

II. The Reform of the International Financial Architecture and the International Financial Institutions

The ongoing reform of the global financial architecture has produced some important achievements, including, more 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 account for more than 80 percent of global GDP.

In addition:

- With the creation of the IMF's Supplementary Reserve Facility (SRF), 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 safeguard countries with sound policies from the effects of market contagion.

- 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 new developments 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 key 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 3rd, 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 – as are consultations with the people that will be affected by Bank projects. For many of the world's poorest, this can be the first real voice in their own future that they have ever had.

New emphases in program content.

We have advocated substantial changes in the scope and nature of the conditionality for IFI 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 incorporate environment, social and labor issues into program design, as appropriate.

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.

- At the World Bank, in large part as a result of United States urging - pursued with broad bipartisan support - there is now systematic evaluation of the environmental and social impacts of Bank-financed projects, and independent inspection panels to provide recourse to people affected by these and other Bank projects.

Making good governance and fighting corruption a systematic part of IFI operations

We have consistently worked to make governance, combating corruption and the 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.

I am glad to report that largely 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. The need for such safeguards has surely been further underscored by recent reports of events in Ukraine.

Let me say a little more about this situation, which I know has been of considerable interest to this committee and others in Congress. The IMF indicated last week that the Ukrainian authorities undertook a number of transactions with their reserves in 1997 and 1998 that may have led, at the least, to the disbursement of Fund loans based on an overstated level of reserves. We are deeply concerned about this information.

The IMF became aware of these transactions over a period of time. The Ukrainians first acknowledged in August 1998 that some of their reserves were tied up and not readily available. At that time, the IMF required Ukraine to make compensating changes in reserves, tighten reserve definitions, and institute quarterly audits by a reputable accounting firm. We supported these actions.

IMF staff received subsequent information during 1999 about additional questionable transactions that it did not disclose to the IMF Board until recently. We consider this to be a matter of especially serious concern, and the Fund has acknowledged that the handling of this matter raises important issues that it needs to address.

Ukraine is cooperating closely with the IMF in undertaking detailed independent audits of the National Bank's activities for 1997-98. The first of these will be completed and published soon. Ukraine will institute more detailed quarterly audits, and has agreed to place the proceeds of any new IMF disbursements in an account at the Fund that can be used only to repay its debts to the IMF.

In addressing the issue of whether to support further IMF financing for Ukraine, we will review the results of the audits in order to determine what additional controls are needed to prevent future inappropriate reserve management practices and help ensure that future IMF resources are used for their intended purpose. We are also urging the IMF to strengthen its internal procedures, in order to do everything possible to ensure against any recurrence of such abuses - whether in Ukraine or any other borrowing country.

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 (USED/IMF), 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. For example:

- *Trade.* In its most recent Letter of Intent, published on January 20, Indonesia 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), have plans for 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 between 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.

As the recoveries in both Mexico and in the crisis-affected economies in Asia indicate, IMF and World Bank programs have played a key role in responding to financial crises and containing their broader effects - stabilizing financial systems, and returning economies to growth. But we recognize that both institutions need to change further in a number of respects if they are to meet the challenges of this new world.

III. 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. 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 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 the IMF 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. 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.

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 an important 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 support 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.

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. We are already seeing progress on this front, with the IMF Executive Board agreeing earlier this year to eliminate the BSFF and the contingency element of the CCFF and just last week supporting elimination of the Currency Stabilization Fund and support for debt and debt service reduction. But we believe that more change is necessary.

We believe that a necessary result of this 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 took up this issue last week, when it engaged in an initial discussion of the broad issues, and will continue work on streamlining the IMF's lending tools in the coming months.

4. *Greater emphasis on catalyzing market-based solutions to crises.*

In its response to financial 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 Board discussed early this week the ways in which the broad principles of the G-7's approach toward involving the private sector in crisis response have been implemented -- with a view towards better operationalizing this approach going forward. Further discussion of these issues is expected by International Monetary and Financial Committee (formerly Interim Committee) in mid-April.

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 month 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.

IV. Our Reform Agenda for the World Bank and Regional Development Banks

Turning to the multilateral development banks, this week in a speech at the Council on Foreign Relations in New York I outlined the United States' agenda for making them as effective as possible in promoting market-led development around the world.

Our approach starts from a number of crucial lessons from the global development experience of the past 50-plus years: that support should reward and strengthen domestic efforts to reform rather than try to force those efforts into existence; that it must support, not supplant the development of open markets and the growth that open markets can bring; that it should be conditioned on an effective framework for promoting market-led growth; and that conditions should focus on the essentials, including critical public investments

We believe that the MDBs need to bring these lessons to bear in improving their capacity to fulfil three core missions:

- Above all, supporting effective growth and poverty reduction in the poorest countries at a time when there are now 1.3 billion people living on less than $1 a day.
- Targeting lending to countries with access to private markets, focused on areas of clear market failure, catalyzing additional private flows, and supporting government efforts to respond to financial disruptions.
- Promoting the provision of global public goods such as vaccines for killer diseases such as AIDS and more effective tools for international environmental protection efforts.

Let me highlight the key changes that we are promoting in each of these areas.

More Effective Policies in the Poorest Countries

What the MDBs do to promote development in the poorest countries is without a doubt their most morally urgent and important work. These are countries that cannot expect to mobilize private flows on a consistent basis and can expect to be reliant on official flows for some time to come. This is the right moment for a fundamental reassessment of how these flows are provided.

The Heavily Indebted Poor Countries (HIPC) initiative is a one-off attempt to wipe the slate clean. It is essential that we make it work so that countries do not find themselves in this situation again.

We believe that an effective approach will require a shift in the emphasis of the MDBs in these countries in the following respects.

- *A more human-centered approach and new division of labor between the IFIs.* Official estimations of the need for external support need increasingly to move from a predominant focus on macro-economic issues to more clearly emphasizing the nature of human needs. As a condition for receiving debt relief and new loans, HIPC countries are now required not only to have established a solid track record of reform, but also to produce forward-looking Poverty Reduction Strategies. These strategies will and must form an important part of the basis for a satisfactory financing framework for countries. Over time we expect this to become the primary responsibility of the World Bank given its expertise and mandate in global poverty reduction. But the IMF needs to have a continuing role in macro-economic evaluation, because no plan is viable if there is not a sustainable financing framework.

- *Increased selectivity.* As the World Bank has recognized in implementing IDA 12, we need increasingly to shift the balance in favor of providing support to countries where donors can have confidence that assistance will be well used - and denying it more often where this is likely to be misused, particularly in cases of corruption. By some estimates, this would more than triple the effectiveness of development assistance in reducing global poverty.

- *Better procedures for the interaction between countries and the IFIs.* We believe that the MDBs should rely on a smaller number of clear and measurable performance targets, set more realistically, and then more vigorously adhered to. An important part of this shift will be developing more effective mechanisms within the MDBs for evaluating when targets and intermediate benchmarks have been met, including a stronger commitment to disbursing in stages and more frequent formal reviews. There also needs to be a stronger presumption of publication for key loan documents and transparency in the relevant operations at the national level, so that the domestic population, outside investors and donors can track disbursements and results.

- *Additional concessional resources.* We should not delude ourselves that HIPC or the reforms that it has inspired will translate into better basic schooling or health care in these countries without a genuine increase in the pool of concessional resources. This makes it especially urgent and important for Congress to help the US play our proper part in this effort, by enacting the President's supplementary appropriations request and the funding contained in his FY2001 budget.

This last point is a crucial one: the earlier version of HIPC saved Uganda $45 million in debt service in 1999 alone. This relief has helped it to double enrollment in primary education in just two years. Under the enhanced HIPC, Uganda would receive an estimated $650 million more, in net present value terms, to invest in these basic priorities. But these benefits for Uganda and other countries will remain in question if the United States does not do its part.

More focused MDB lending in emerging market economies

Emerging market economies, where there are private financial flows, involve different issues than those posed in the poorest countries. Specifically: MDB lending in these countries should be confined to those areas where they can increase the country's overall capacity to access external resources, and add value that the private markets cannot.

This suggests an emphasis on three types of circumstances:

- Where they can effectively deploy the MDBs' unique capacity to apply conditions and to promote key public investments - including basic health and education and other social spending and the development of an effective institutional infrastructure for markets – that add to the total stock of public resources available for these purposes.

- Where the involvement of the MDBs can attract genuinely additional private flows: for example, where MDB co-financing arrangements and guarantees can enhance the credibility of developing country borrowers in the eyes of investors. In this context we believe that the MDBs should continue to explore more innovative ways of catalyzing private capital flows to such countries, where these can be pursued within strict and clear guidelines that safeguard the financial position of the institutions.

- Where the MDBs can help to counteract temporary disruptions or limitations in a country's access to private capital due to contagion or other external shocks. To this end, they should be taking advantage of the substantial recent improvement in global financial conditions to develop a large, more flexible, contingent financial capacity to respond to deterioration in investor confidence in emerging markets down the road. This is an important point, because financial emergencies are times when there is more social and human distress, and as we have seen, they are times when more structural changes can be achieved in 18 months than would otherwise been achieved in a matter of years. On the basis of recent experience, we strongly believe that the World Bank should find ways to upgrade substantially its capacity to respond rapidly and effectively to such emergencies in the future.

As part of this approach, the World Bank and others need to work harder to ensure that their lending is genuinely productive, and that is supports, rather than supplants, private sector finance.

Accordingly:

- We believe there should now be a strong presumption that the MDBs have no business lending in countries for sectors in which private financing is available on appropriate terms, and where there is a risk that such lending will simply supplant private financing. These include credit programs serving mainly large-scale industry, support for large-scale infrastructure in cases where these would have no significant environmental benefit, and lending in oil, telecoms and other sectors where the private sector is already active.

- We further believe that in a world in which the MDBs are promoting policies that succeed in increasing the capacity for emerging market economies to access private finance, the share of MDB lending that is devoted to these economies should be expected to decline in volume over time and become more closely linked to the end-goal of graduation. The MDBs cannot expect to live in a world where they can count on successive capital increases for their non-concessional loan windows. Going forward, they should incorporate this reality in their identification and management of lending in middle income countries.

For all MDB lending in emerging market economies, we also believe that a review of pricing policies is appropriate. Pricing needs to avoid excessive encouragement of public rather than private sector reliance. And it needs to assure that, given the enormous needs for concessional finance, the MDBs are in as strong a position as possible to contribute resources to concessional programs and to the creation of global public goods. A review based on these principles will, I suspect, lead to higher prices in many cases.

An Enhanced Focus on the Provision of Global Public Goods

Increasingly, as integration proceeds, the world is confronting a broad class of problems that cross borders and defy solution by individual governments and markets. Whether it is money laundering and financial crime, global warming, new killer diseases, or reductions in global bio-diversity - the solutions to these problems will be global public goods, requiring concerted global cooperation. We believe that the World Bank and other development institutions potentially have an enormous contribution to make in helping to push the frontier of international efforts to promote these kinds of goods, many of which will especially benefit developing countries.

Let me highlight one area in particular where we believe that the MDBs should be looking especially hard for new kinds of responses: promoting the creation and dissemination of medical knowledge.

Infectious diseases such as HIV/AIDS, tuberculosis, malaria and respiratory and diarrheal disease, are responsible for almost half of all deaths of people under 45 worldwide. Life expectancy is now actually declining in a host of African countries struck by HIV/AIDS, with adult mortality rates in the worst affected countries now twice what they were even a few years ago. Yet the WHO estimates that only perhaps 10 percent of the $50-60 billion spent worldwide each year on health research is directed toward diseases that afflict 90 percent of the world's population.

President Clinton has proposed a number of important bilateral efforts that he hopes will catalyze further efforts by other bilateral and private donors. But we agree with President Wolfensohn that the World Bank has an important contribution to make, by helping to create a market for new treatments and vaccines in many of the countries worst affected. That is why the President is proposing that the MDBs dedicate a further $400 million to $900 million each year of their concessional lending for basic health care to immunize, prevent and treat infectious diseases in the poorest countries.

V. Initial Reflections on Recent Alternative Reform Proposals for the IFIs

These steps for reorienting the institutions build on and, in many cases, significantly expand upon the progress we have already made in recent efforts to strengthen the international financial architecture. Fully implemented, our proposed reforms would greatly enhance the IFIs' capacity to support global financial stability and growth – while remaining true to the basic ideals upon which they were founded.

As will be clear from my preceding remarks, our approach shares with the reports of the IFI Commission and the dissents thereto a number of important goals and aspirations. Notably:

- The need for a clearer delineation of the respective roles of the World Bank and the IMF – and clearer priorities.

- The need for more effective program design to make best use of the lending provided to respond to crisis situations – including, with regard to the IMF, the potential for ex ante conditions to help strengthen incentives for sound policies outside of crises.

- The need for greater accountability and transparency at all of the IFIs – an objective that we have vigorously pressed in the past and will continue to push for in the future.

- The need for strong and well-targeted support for successful development in the poorest countries and America's enormous stake in the global development effort as a whole.

- The need for substantial, conditioned debt relief for highly indebted countries with a track record of economic reforms.

- And the fundamental recognition that no amount of official finance in the world can make up for a lack of domestic commitment in the country itself. Countries implement and sustain reforms to which they are themselves committed.

At the same time, it is fair to say that we part company with the IFI Commission's Report on how these principles can best be applied.

Mr. Chairman, we have not completed our full review of this Report, but frankly, we find a number of the more drastic recommendations highly troubling. However, while we have not completed our full review of the Report's recommendations, we believe that taken literally, they would straitjacket these institutions to the point where would no longer be able to advance America's core values and interests around the world. The combination of restrictions that the Report proposes would essentially eliminate these institutions' capacity to provide support for countries as diverse as Mexico, Bulgaria and Thailand. This would put at risk American wages, American savings and American security.

Let me highlight for the Committee some of our leading concerns with respect to both the Commission's recommendations for the IMF and for the World Bank.

The Report's proposals for the IMF:

First, the Report could limit lending to a narrow set of relatively prosperous economies, thereby preventing the international community from responding to financial crises such as the Asian financial crisis. Taking at facing value the recommendations in the Report, few, if any of the countries that have suffered financial crises in recent years - notably Mexico, Brazil and Korea - would have qualified for emergency IMF support.

The Report's brief acknowledgment that these rules might have to be overthrown in times of systemic risk is welcome, but it equally calls into question how the rest of the Report's proposals in this area are to be interpreted and applied. The authors offer no guidelines or rules for how to implement this exception, which by its nature surely merits more serious discussion than the Report acknowledges. Until and unless the implications are fully understood, it must be assumed on the basis of the rest of the Report that a very large number of countries that are potentially vulnerable to crises would not, under the proposed system, have access to IMF official finance.

Second, the Report would allow the set of pre-qualified borrowers unconditional access to IMF resources. We believe this would be an irresponsible use of taxpayers' money, would be likely to fail in stemming crises, and would be a standing invitation to irresponsible behavior by investors and governments as a result of moral hazard. For the Committee's information I am submitting with this testimony a brief survey of the IMF's experience with the use of conditions[1]. As this survey shows clearly, countries that fully implement IMF reform conditions, for example, Thailand and Korea, have consistently had the greatest success in stabilizing their economies and restoring growth.

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[1] *Compliance of Countries with Agreements Made as a Condition of Receiving IMF Financial Assistance*, attached.

Third, the Report would presume, through its qualification criteria, that crises emerge almost exclusively from flaws in the financial sector. This neglects a major lesson of recent crises, that problems that surface in the financial sector will often have their roots in much deeper economic and structural problems. These are problems that the Commission's suggested criteria would be likely to overlook.

A global economy with the kind of IMF that the Report envisions would be one in which the vast majority of IMF members would be without the IMF's financial support in finding constructive means of dealing with balance of payments problems – including the newer kinds of crises that we have seen in Mexico, Korea and elsewhere. The net result would be that US businesses, farmers and workers would be more vulnerable to contagion from crises that countries were unable to contain on their own - and more vulnerable to the re-emergence of restrictions on trade and payments and other beggar-thy-neighbor policies that governments in crisis without international support have all too often resorted to in the past. We do not believe this an outcome that the United States should support.

The Report's proposals for the World Bank and other MDBs:

With regard to the World Bank and other MDBs, the Report would exclude the vast majority of the current recipients of MDB lending from the additional finance and insurance against instability that access to these programs can provide. As I noted earlier, we believe that the MDBs' lending to countries with access to private sector finance needs to be more tightly focused on adding value that the private markets cannot. But we categorically reject the idea that there are few such opportunities for the MDBs to exploit in these countries - or that they are not crucially important to US interests.

- As we saw, most vividly, in the Asian crises, the emerging market economies have increasing systemic significance for the global economy as a whole. Emergency lending by the MDBs at times of crisis can enhance a country's capacity to make necessary policy adjustments, not least by making it possible for governments to protect the most vulnerable from the short-term effects of the crisis.

- Second, and no less important, the Report would rule out MDB support for the majority of the world's poorest people. One third of the people in Latin America live on less than $2 a day, and most are in countries that would be made ineligible for support. Despite the fact that more people live on that income in China and India than the entire population of Sub-Saharan Africa, neither of these countries would have access. Private financial markets alone will not finance needed investments in basic health and education and rural infrastructure. And appropriately targeted MDB finance can itself catalyze additional private investment.

With regard to the poorest countries, the Report would substitute grants for loan-based funding in the vast majority of World Bank programs.

- The Report's proposals in this area would raise serious workability problems with respect to both the timing of the delivery of assistance and the reliance on NGOs as the main conduits of aid. For example, the recommendations for promoting the provision of public goods would essentially require countries to build the school and enroll the children, before the official assistance to pay for it would be provided.

- Perhaps most fundamentally the shift to grant-based funding would drastically reduce the total amount of official resources that can be brought to bear in these economies, and bringing to an end any capacity for concessional flows to be re-lent. It bears emphasis that roughly half of the $20 billion in IDA 12 is made up of "reflows" of funds due to past recipients' repayment of loans. In a world in which official assistance is in such scarce supply, this re-lending of very highly subsidized concessional support, is a benefit that the international community should be very wary of giving up.

In essence, the Report's recommendations would drastically undercut the global role of the World Bank by limiting it to the "knowledge" business. This ignores the fact that knowledge without funding can be sterile; the fact that useful knowledge is a product of real operations, which require real finance; and not least, the fact that the World Bank is the broadest, most effective source of development expertise that the world possesses.

Mr. Chairman, the founders of the Bretton Woods institutions more than half a century ago recognized that there could be no successful global integration without truly global institutions for promoting prosperity within countries and a stable flow of capital between them. This was the painful lesson of the 1930s, when the absence of an effective global response to financial panics helped pave the way for deflation and depression - and ultimately, World War II. The same lesson has been taught again and again in the postwar period: indeed, can only apply more forcefully at a time when the world is more interconnected than ever before. Seen in this light, adopting the view that the IMF should serve only an elite club of nations, and the World Bank's global role should be drastically curtailed, would be a large step backward indeed.

The Commission's call for expanded debt relief

Finally, we welcome the support that both the Commission's Report and the dissents thereto have offered for reducing on a conditioned basis the official debts of the poorest countries. As I mentioned earlier, this has been a primary goal of the Administration since we led the development of the first HIPC initiative in 1996.

These efforts have already worked to help countries such as Uganda direct their scarce resources on poverty reduction rather than debt service. When the enhanced HIPC initiative is fully funded and implemented we believe it will make an even greater difference to the prospects for growth and poverty reduction in countries that are committed to reform.

However, we do not believe that the Report's recommendation to "write-off" all HIPC debt would be either desirable or feasible. Specifically:

- First, because the United States and the international community's commitment to this effort will be judged less by the scale of our aspirations than by the resources we are prepared to invest in making these aspirations bear fruit. Comprehensive debt forgiveness for the HIPCs would raise the costs of the Initiative for the IFIs from around $14 billion to roughly $43 billion. A clear-eyed assessment of the record must conclude that this would require a substantially larger donor commitment to HIPC than the international community or the US Congress has shown itself willing to make.

- Second, and as a consequence, without a commensurate increase in the global pool of concessional resources, the additional costs of such a proposal would have a commensurate negative impact on new concessional lending. This would negate the very financial benefits to these countries that HIPC is intended to provide. And to the extent that it had the effect of depleting resources for non-HIPC countries, it would amount to the "poor funding the poor". This is at odds with the Commission's own recommendations for increasing financial support for poor countries with a track record of reform.

IV. Concluding Remarks

Mr. Chairman, my colleagues and I anticipate a complete and thoughtful examination of the IFI Commission's Report and the dissents thereto to better help us identify and address the global issues and realties confronting us. Our hope is that the work of the Commission might help accelerate and strengthen the ambitious reform agenda, which is already on the table.

However, let me end by highlighting once again that we welcome the unanimous support for debt relief within the Commission. At this point, our ability to advance U.S. interests in the IFIs will depend crucially on meeting our current reduced obligations for these institutions and playing our full part in the enhanced HIPC initiative agreed in Cologne. There has also been broad national and international support for President's efforts to promote the provision of vaccines and cost-effective treatments for HIV/AIDS and other diseases that hurt the poorest countries worst of all.

Mr. Chairman, these two initiatives need urgently to move forward. It would be tragic indeed if these common priorities were delayed by less morally compelling debates of IFI reforms. I look forward to working with this Committee and with others in Congress on finding the most constructive means by which this can be achieved. Thank you. I would now welcome any questions you may have.

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ATTACHMENT

Compliance of Countries with Agreements Made as a Condition of Receiving IMF Financial Assistance

The IMF provides financial resources to member countries on conditions that are designed to encourage economic adjustment and to ensure that a member has the capacity to repay the IMF on time. This, in turn, helps ensure that the IMF's pool of financial resources is available to other members facing balance of payments problems. Such conditions aim to reduce a member's balance of payments deficit to a manageable size while fostering economic growth, employment, financial stability, and the elimination of restrictions on international trade and payments.

The IMF has developed a process and a range of techniques for monitoring and assessing a country's compliance with conditions for receiving financial assistance. The IMF requires that the national authorities provide a "letter of intent" outlining: the government's policy intentions; the policy changes that must be taken before financing can be approved; performance criteria (macroeconomic indicators that must be satisfied on a quarterly, semiannual, or in some cases monthly basis for drawings to be made); and periodic reviews that allow the IMF's Executive Board to assess the consistency of policies with the objectives of the program.

Increased transparency at the IMF is giving the public greater capacity to make its own assessment about the degree to which countries comply with conditions for IMF financial assistance. The more systematic release of letters of intent as well as information about periodic program reviews means that, in most cases, the public can monitor the evolution of a country's program from the initial elaboration of policy intentions through decisions regarding release of financial resources.

The IMF's guidelines on conditionality, which are reviewed periodically:

- encourage members to adopt corrective measures at an early stage;
- stress that the IMF should pay due regard to members' domestic social and political objectives, as well as their economic priorities and circumstances; and
- permit flexibility in determining the number and content of performance criteria.

While these guidelines apply to all cases where members seek IMF financing, the Fund recognizes that no single reform model suits every circumstance. Each member country, in close collaboration with IMF staff, designs its IMF-supported program. The process involves a comprehensive review of the member's economy, including the causes and nature of the balance of payments problem, and an analysis of the policies needed to achieve a sustainable balance between the demand for, and the availability of, resources. In sum, the IMF's approach to conditionality seeks to strike a balance between the need for equal application of rules regarding access to finance, and the need for reasonable flexibility in the design and monitoring of adjustment programs.

A recent report by the General Accounting Office looked in detail at the process by which the IMF establishes financial arrangements with borrower countries and the types of conditions set under such arrangements. The study also assessed, for six countries (Argentina, Brazil, Indonesia, Korea, Russia and Uganda), the degree to which conditions were met and not met, and the actions the IMF took in response. The report found that "in some cases, the IMF determined the countries had made sufficient progress in meeting program conditions so that additional funds could be made available. In other cases, however, the IMF determined that country progress in meeting the conditions had not been sufficient, and its response varied depending on the specifics of the condition and the judgment of the IMF staff and Executive Board on the country's overall progress." The report cites specific examples of how the IMF deals with situations where a determination is made that progress in meeting conditions has been insufficient.

- In some cases (e.g., Argentina March 1999, Uganda April 1998) the IMF Executive Board granted waivers for nonobservance of specific conditions at various points during their programs. "These waivers were based on the IMF's judgment that there was sufficient overall progress in implementing the program and that deviations from meeting required conditions were minor."
- In other cases (e.g., Brazil February-March 1999; Indonesia March and June 1998) the Executive Board delayed disbursements until the country had made sufficient overall progress in meeting the program requirements.
- Sometimes, as in the case of Russia (March 1999), a program may be terminated.
- Finally, the GAO report points out that in some cases "the IMF and borrower countries may also negotiate changes in conditions to respond to unanticipated developments." In the case of Korea, this reflected a determination by the IMF during the course of 1998 that the initial program was overly optimistic. In other cases, this may be due to changes in the international environment or other factors over which the country has little or no control.

The IMF's website (www.imf.org) contains additional information about this subject (see "conditionality" on the website's index of subjects). There is also extensive literature, both country-specific and cross-country studies, on the related question of the effectiveness of IMF programs. See, for example, "Do IMF-Supported Programs Work? A Survey of the Cross-Country Empirical Evidence" (IMF Working Paper WP/98/169 by Nadeem Ul Haque and Moshin S. Khan). This study is available on the IMF's website and includes a lengthy list of additional works on this subject by authors both inside and outside the IMF.

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[1] *International Monetary Fund: Approach Used to Establish and Monitor Conditions for Financial Assistance.*" General Accounting Office, June 1999.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
March 20, 2000

Contact: Bill Buck
(202) 622-2960

TREASURY STATEMENT ON DEBT BUYBACKS

The U.S. Treasury Department anticipates conducting the next stage of its debt buyback program during the second half of April, in accordance with Treasury Secretary Lawrence H. Summers announcement in January.

Treasury will provide additional information concerning the debt buyback program at the Quarterly Refunding announcement in May.

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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
March 20, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 23, 2000
Maturity Date:	June 22, 2000
CUSIP Number:	912795EB3

High Rate: 5.780% Investment Rate 1/: 5.947% Price: 98.539

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 22%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 25,082,885	$ 7,160,170
Noncompetitive	1,309,632	1,309,632
PUBLIC SUBTOTAL	26,392,517	8,469,802 2/
Foreign Official Refunded	67,000	67,000
SUBTOTAL	26,459,517	8,536,802
Federal Reserve	3,889,235	3,889,235
Foreign Official Add-On	0	0
TOTAL	$ 30,348,752	$ 12,426,037

Median rate 5.770%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.720%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 26,392,517 / 8,469,802 = 3.12

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,037,710,000

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 20, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 23, 2000
Maturity Date:	September 21, 2000
CUSIP Number:	912795FA4

High Rate: 5.895% Investment Rate 1/: 6.160% Price: 97.020

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 13%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,823,635	$ 3,350,635
Noncompetitive	1,152,726	1,152,726
PUBLIC SUBTOTAL	19,976,361	4,503,361 2/
Foreign Official Refunded	3,000,000	3,000,000
SUBTOTAL	22,976,361	7,503,361
Federal Reserve	3,255,000	3,255,000
Foreign Official Add-On	346,000	346,000
TOTAL	$ 26,577,361	$ 11,104,361

Median rate 5.880%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.800%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 19,976,361 / 4,503,361 = 4.44

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $858,434,000

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 1:00 PM EST
Text as Prepared for Delivery
March 21, 2000

"THE CASE FOR NORMAL TRADE RELATIONS WITH CHINA"
TREASURY SECRETARY LAWRENCE H. SUMMERS
REMARKS TO THE DALLAS COMMITTEE ON FOREIGN RELATIONS
DALLAS, TX

Thank you. Let me start by thanking you, Ray Hunt, for the effort you have invested in making this event happen, and, I gather, the special efforts you made to be here in person. Let me also thank Ambassador Richard Fisher for his contribution. If he did not have to be in Japan I know he would have been here today.

I am here to discuss the case for granting Permanent Normal Trading Relations (PNTR) to China. The President and all of this Administration believe that the United States has an enormous stake in this decision. And I know that Congresswoman Eddie Bernice Johnson, and all the other friends of open trade here in Dallas, recognize that in this area, what is good for America will be even better for Texas. Texas is second only to California in the exports it sells overseas. And have no doubt: Texas's most successful export sectors would gain some dramatic new opportunities if Congress makes the right decision.

There are many ways to make the case for granting permanently to the largest country in the world the access to our markets that it enjoys more conditionally today. But let me start by emphasizing one crucial point: these arguments have very little to do with helping China - and everything to do with promoting America's core interests.

Last fall, the United States signed a bilateral agreement with China to bring it into the World Trade Organization, on terms that will open its markets to American products and investment. After China completes its agreements with other countries, it will join the WTO. But for us to enjoy the benefits of its entry we must first grant it the same permanent normal trading status that we have already granted to every other country with whom we share the benefits of the WTO.
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The President submitted to Congress last week legislation that would achieve this. I will discuss in a few moments the concrete commercial advantages for the United States of passing this bill. I believe they are enormous. But let me be clear. Even if these advantages were very small, it would be in our interest to take this step, because the agreement with China is quite simply a one-way street.

- This vote is not about whether China will enter the WTO: it will become a member either way.

- It is not about whether Chinese producers will have access to our market: they will continue to be able to sell their goods in the United States whether or not Congress passes PNTR.

- It is not about whether we approve or disapprove of China's human rights record: we will continue to condemn it in the United Nations Human Rights Commission and other fora, either way.

- It is not about China's policies toward Taiwan or other strategic issues that concern us: we will continue to insist on peaceful resolution of differences between the PRC and Taiwan, and to press China to respect global norms of conduct in nuclear nonproliferation and other areas, either way.

There is no disadvantage to the United States in passing this legislation. We will continue to press our full agenda with China regardless of how Congress votes. And China will open its markets to other members of the WTO when it joins the system. All that PNTR does is ensure that America enjoys the benefits that every other country will obtain.

There are, however, three crucial advantages to the United States in passing this bill:

- First, there are the direct and commercial benefits of the market opening agreement that we concluded last fall, some of them particularly valuable to the businesses, workers and farmers of Texas.

- Second, there are the economic and broader benefits to the United States of promoting economic and social change in China.

- Third, there is the ultimate enhancement of America's national security interests that comes from integrating China more closely with the community of nations

I. The Commercial Benefits to the United States of Granting PNTR

By passing PNTR we will be agreeing to continue to grant China the same access to our markets that its producers currently enjoy. What we will get in return – as a result of the agreement we concluded last fall – is unprecedented new access to what could ultimately become the largest market in the world. Texas alone has export sales to China of more than $580 million in 1998 – nearly 50 percent above its sales in 1993.

With this deal in force:

- Chinese tariffs will fall by 50 percent or more in the space of five years, and other import barriers either eliminated or greatly reduced, in a wide range of sectors that are important to us. For example:

  - Tariffs on the broad range of agricultural goods, including many that are crucial to Texas, will fall by roughly one half, with larger cuts for US priority goods. And Chinese export subsidies on cotton and other agricultural goods – and the price advantage that these provide – will be eliminated. These changes can only hold out important potential benefits for the state that produces more cotton and beef than any other.

  - China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on computers, semi-conductors and other high-tech products. Texas is this country's second largest exporter of electronic goods, and managed to sell $140 million worth in China in 1998. Consider what could happen when those tariffs fall to zero – in a country where one fifth of the world's people live.

  - Tariffs in the automobile sector, another key area for Texas, will fall from 80-100 percent to 25 percent by mid-2006, with the largest cuts in the first years after WTO accession. Auto quotas will be phased out. And American auto companies will be allowed to provide auto financing for the first time.

- China would phase out a wide range of restrictions in a broad range of services, including distribution, banking, insurance, telecommunications and professional services such as accountancy and legal consulting. Instead of having to produce in China and sell through a state-sponsored middleman, over the course of the next three years American businesses will win the right to distribute goods directly – goods that are made here at home.

- We would also acquire special safeguards in the WTO against dumping and surges in imports from China, along with other key protections with respect to forced technology transfer requirements and the practices of state-owned-enterprises. These provisions will ensure that American businesses and workers have strong formal protection against unfair trading practices in China going forward. No WTO accession agreement has ever contained stronger measures to guarantee fair trade and to address practices that distort trade and investment.

To those who are concerned that these commitments by China will not be honored, let me assure you that we are already preparing for the most intensive enforcement effort ever mounted for a single trade agreement. Such concerns cannot be a reason to reject an agreement that will allow us to use global enforcement mechanisms of the WTO to keep China to its word. Some of China's most important decisions will for the first time be subject to international review, with rules and binding mechanisms for resolving disputes.

In these and other ways, the concessions involved in this agreement are all on China's side. All that it requires is we pass PNTR – so that these new markets do not flow instead to other countries.

II. America's Stake in Promoting Successful Market Reform in China

I have spoken of the direct commercial advantages of this agreement. But there are also crucial indirect advantages for the United States in helping to promote the path of Chinese reform.

China has come a long way since the beginnings of market reforms a little over 20 years ago. Its economy has grown by more than 350 percent in real terms. It has risen to being 11th largest trading nation in the world. And the number of Chinese with access to a television has risen one hundred-fold, to one billion.

And yet, in part as a result of the government's partial approach to reform, China's economy and society are also showing increasing signs of strain:

- The financial sector is mired in debts, but is still making the majority of its loans to a loss-making state-owned enterprise sector that accounts for only around one third of economic output.

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

- And the country still suffers from poorly developed market institutions and the lack of a reliable rule of law. These pose a growing burden at a time of enormous economic and social change. Smuggling and corruption, drugs and arms trafficking all pose a rising threat.

As the President has said, as they confront these problems, the Chinese authorities face a dilemma: they realize that closer integration with the global economy risks unleashing forces that they cannot control. Notably, opening China more fully to the revolution in communications and technology will provide ordinary Chinese with unprecedented freedom and access to information – access that experience suggests that China will not long be able to control. But the government also knows that without competition and integration, China will not be able to attract the investment and know-how that it needs to build a modern economy and deliver rising living standards and stability to its 1.3 billion people.

It is a lesson of the history of international trade agreements since the start of the GATT that the greatest benefits come not from the concessions that you receive from other nations but from the concessions that you make. In choosing to sign this agreement and enter the WTO, China is locking into place a more rapid process of market opening and reform of its economy. And it is submitting itself to a global rules-based system, based on core standards such as transparency and checks on arbitrary government action.

We have an enormous economic and broader stake in supporting that decision.

- Because it will help strengthen the hand of economic reformers in China, and make it more difficult for others to seek to turn back the clock. The growth of the private sector could then play a vital role in absorbing workers that are being laid off from inefficient state-owned firms.

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

- And we have an enormous stake in supporting that decision because it will provide a catalyst for broader changes that will help to promote core American interests and values. As competition and integration proceed, China will need to become more market-based; more protective of personal and commercial freedoms, and more open to the free flow of information and ideas.

Already, we are seeing these positive effects in renewed commitment to reform at the highest levels of the Chinese leadership that is expressly linked to the need to prepare the economy for tougher competition from the outside world. For example:

- The government has stepped up efforts to promote the development of private firms, the most dynamic sector of China's economy, by eliminating heavy deposit requirements and other regulations which discriminate against them and allowing them to list themselves on the stock market for the first time.

- PBOC Governor Dai has pledged to intensify efforts to clean up bad loans within the banking sector and to enhance competition among banks by permitting more flexible interest rates. A regulatory overhaul is underway to level the playing field between foreign and domestic firms in line with WTO commitments.

- As the Wall Street Journal recently reported, even parts of the economy that the Chinese consider strategically important are being opened up to the private sector, with individual investors already dominating the Chinese Internet industry and being allowed take ownership stakes in domestic banks for the first time.

III. The Broader National Strategic Case for Supporting Greater Integration of China

Finally, a policy of welcoming China into the community of nations – rather than being a voice that keeps China out, even when it commits to live by the rules – is a policy that supports our deepest national security interests.

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

That this has so far been achieved with the minimum of conflict, despite the pervasive rivalries between the peoples of Asian nations, is a reflection of the progress that has been made across the region toward openness and integration. And it speaks to the success of postwar international institutions in helping to cement that progress. But if the next quarter century in Asia is to be as successful as the last it will be crucial that China define its greatness in a constructive way and that it fit into the global economic system.

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

This is a policy based not on mutual affection but mutual respect. As I said at the beginning, we can and will continue to express our differences with China both forthrightly and consistently. What we must not do is seek to cut China off from the economic and broader forces that are most likely to change it in the right direction.

At bottom, we believe that in a 21st century global economy China will increasingly have to recognize that to maintain stability and growth at home, it must meet, rather than stifle, the growing demands of its people for openness and accountability. As the President has said, simply bringing China into the WTO does not guarantee that its government will take this course. But it will force the authorities to confront that choice sooner, and it will make stronger and more visible the imperative to make the right choice.

By supporting China's entry into the WTO we have already paved the way for an historic change in China's relations with the broader global economy. All that remains is for us to grant PNTR to China so that American businesses, workers and farmers can enjoy the benefits. I do not believe that this should be a difficult step for the United States to take. Thank you.

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DEPARTMENT OF THE TREASURY

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March 21, 2000

TREASURY ACTING ASSISTANT SECRETARY FOR TAX POLICY JONATHAN TALISMAN REMARKS TO THE TAX EXECUTIVES INSTITUTE MIDYEAR CONFERENCE WASHINGTON, DC

I want to thank Charles, Mike and Tim for inviting me here this morning. As has become traditional, I am following behind our Deputy Secretary, this year Stu Eizenstat, to discuss issues that are part of the tax policy agenda this year. I will focus first on the Administration's legislative initiatives and then shift to administrative guidance.

As you know, the President's budget calls for about $350 billion in gross tax cuts over ten years -- $250 billion in net tax cuts and about $100 billion in revenue offsets.

The budget includes targeted tax cuts to address several particularly pressing problems -- education, health care, child care, poverty relief and retirement saving. For example, the Budget includes two new initiatives designed to provide a progressive saving incentive. First, the President's Retirement Saving Accounts provide a progressive matching credit for contributions to pension accounts maintained by employers or financial institutions. Second, a new credit would be provided to small businesses that provide automatic contributions to their employees. We are presently meeting with outside groups to discuss comments and concerns regarding these proposals. We have been pleased at the generally favorable response and hope that our conversations will help us refine and improve our proposals, leading to their enactment

In its FY2001 budget proposals, the Administration also seeks to leverage the progress that has already been made in revitalizing America's economically disadvantaged communities through the provision of another $17 billion in targeted tax incentives over the next decade. These measures will allow more communities to benefit from the investment that is so important in a technology-driven economy, while offering an innovative approach to the task of attracting patient equity capital to businesses in economically disadvantaged areas.

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For example, an important priority is the New Markets Tax Credit, a part of the President's broader New Markets Initiative. This tax incentive would help attract $15 billion in equity capital to community-based financial institutions which, in turn, would invest these funds in their communities, spurring the creation of high-quality jobs and, equally important, building lasting links to the new economy. High technology and service firms at the heart of the new economy have generally sought to locate near other similar enterprises, in places like the Silicon Valley and the Dulles Corridor, so that they may tap a common pool of customers, employees and other resources. Thus these enterprises tend to be highly concentrated geographically, and often not in lower-income areas. The New Market Tax Credit would attract capital, and therefore high-growth industries, to lower-income areas by providing a subsidy to investors. This temporary subsidy will, at least in part, compensate investors for the additional costs involved in establishing operations in locales which have yet to benefit from the strength of the U.S. economy over the past decade and where the presence of other fast-growing firms may therefore be limited.

The New Markets Tax Credit is specifically designed to further the efforts of community-based financial institutions in promoting economic revitalization while encouraging these entities to make the "on the ground" decisions concerning where the need for capital is greatest. Such institutions -- including a wide variety of existing or newly-formed community development banks and venture funds -- would apply to the Treasury Department for authorization to issue stock (or other equity interests) with respect to which the investors could claim a tax credit equal to approximately 25 percent of the investment, in present value terms. The credit would be claimed in five equal installments, each equal to 6 percent of the original investment, during each of the first five years of investment.

The budget also contains an important new tax initiative to encourage the development of vaccines to combat diseases that afflict the third world. These diseases cause over 5 million deaths annually, most in developing countries. The credit would match the efforts of nonprofits, such as UNICEF, to provide a market to purchase these vaccines.

The final budget initiative I would like to focus on addresses a serious concern with the current tax code. The Budget contains a $33 billion proposal to correct serious design flaws in the individual Alternative Minimum Tax (AMT) that are causing the AMT to apply increasingly to middle-income families, thereby complicating their tax preparation and raising their tax bills. The number of taxpayers subject to the AMT is expected to grow, if no change is made, from 1.3 million today to 17 million by 2010. This is due in part because, under current law, the AMT treats personal exemptions and the standard deduction as preference items, in the same category as special tax breaks such as intangible drilling costs and tax shelter losses. Taxpayers subject to the AMT are denied these deductions. As a result, under current law, a couple with five children and $70,000 of income that claims the standard deduction would be subject to the AMT in 2000. The AMT was never intended to affect such families.

The Administration's proposal would address these design flaws in two ways. First, when fully phased in, the proposal would allow taxpayers to deduct all of their dependent exemptions against the AMT, thereby ensuring that no taxpayers would become subject to the AMT simply because they claim personal exemption deductions for their children. This would cut the number of taxpayers on the AMT in 2010 by more than half to 7.6 million. Absent this reform, by 2010, 45 percent of two-child families would be subject to the AMT. The percentage is higher for larger families. Second, the proposal would allow taxpayers to claim the standard deduction for AMT purposes in 2000 and 2001.

Let me move from the initiatives and briefly discuss a few other issues of importance to us at Treasury: corporate tax shelters, and our 2000 priority business guidance plan.

As you all are well aware (and as discussed by Deputy Secretary Eizenstat yesterday), we have been seeking to address the recent proliferation of corporate tax shelters. In fact, I first spoke to you about this problem in St Louis in the fall of 1998. This is a problem, we believe, that affects the integrity of the tax system and therefore warrants great concern and merits concerted action, both legislative and administrative. When we started working on our "White Paper" on corporate tax shelters at the end of 1998, our first goal was to raise awareness that there was a problem and to explore the nature of the problem. Now, it is clear that there is widespread agreement and concern among tax professionals that the corporate tax shelter problem is large and growing.

Earlier this year, the American Bar Association testified about its "growing alarm [at] the aggressive use by large corporate taxpayers of tax 'products' that have little or no purpose other than the reduction of Federal income taxes," and its concern at the "blatant, yet secretive marketing" of such products. The staff of the Joint Committee on Taxation, the New York State Bar Association, the Tax Executives Institute, and others have echoed these comments. The dialogue we have received to date on this topic has been invaluable.

Our budget proposals include a number of targeted provisions aimed at specific shelters of which we were aware. What we have found over time, however, is that addressing tax shelters transaction-by-transaction is a losing proposition. As one participant has remarked, "it is like the arcade game of 'whack-a-mole'". You kill off one over here and two or three more appear over there. Already, last year, we shut down so-called "chutzpah trusts" which were similar to a structure shut down by Congress in 1997. The "BOSS" transaction that we curbed recently by notice is a derivation on the section 357(c) product. Promoters will continue to search for defects in the code to exploit, and taxpayers with an appetite for tax shelters will simply move from those transactions that are specifically prohibited by the new legislation to other transactions the treatment of which has not been definitively proscribed.

To curtail the development, marketing, and purchase of corporate tax shelters, we must change the tax shelter cost/benefit analysis in a manner sufficient to deter these artificial transactions.

Last month, we announced new tax disclosure regulations designed to increase disclosure and access to information regarding corporate tax shelters. Greater disclosure will help the IRS to identify these shelters and assist enforcement in curbing these shelters. Also, requiring disclosure will inhibit corporate taxpayers from engaging in questionable transactions

- Corporate taxpayers would be required to attach a disclosure statement to their return regarding transactions that have certain identified characteristics common to corporate tax shelters. Also, any transaction that is substantially similar to a transaction previously identified by Treasury and the IRS as a tax shelter would need to be disclosed.

  - These characteristics include: book\tax differences above $5 million, certain fees paid to a promoter in excess of $100,000, use of a tax-indifferent party to provide tax benefits, conditions of confidentiality, contractual protection against the fact that the tax benefits would not be realized, and inconsistent treatment for U.S. and foreign tax purposes.
  - To aim at larger transactions, the reporting obligation would be limited to transactions above certain dollar thresholds.
  - Also, to avoid impact on legitimate transactions, several exceptions are provided in the regulations. For example, transactions in the ordinary course of a taxpayer's business would not be disclosed if they were consistent with customary commercial practice and the taxpayer can demonstrate it would have participated in the transaction on substantially the same terms absent the tax benefits.

- Promoters would be required to register certain confidential corporate tax shelters under section 6111(d). Disclosure is required for any transaction that (1) has a significant purpose of tax avoidance or evasion, (2) is offered under conditions of confidentiality, and (3) has promoter fees in excess of $100,000.

  - This hopefully will enhance IRS notification of tax shelters either through actual registration of shelters or removal of conditions of confidentiality.

- Promoters would be required to maintain lists of investors and other pertinent information regarding potentially abusive tax shelters.

  - This will allow cross-checking. Once a shelter is identified as having been promoted, we will be able to locate all of the taxpayers to whom it was marketed.
  - This information must be available for inspection by the IRS generally for a period of seven years.

These regulations are an essential part of our comprehensive strategy for curbing corporate tax shelters. Other aspects of this multi-faceted approach to tackling the problem of corporate tax shelters include legislative proposals to halt the sale and marketing of shelters, tightening practitioner standards, regulatory action to clamp down on specific shelters as they come to light, and IRS steps to better identify and address abusive transactions.

Administration's Legislative Proposals

Legislative action is necessary in order to curb the further growth of corporate tax shelters. The main elements of the proposed legislation include:

- creating incentives for disclosure by providing penalties for nondisclosure and modifying the substantial understatement penalty,
- codifying the judicially-created economic substance doctrine, and
- providing consequences to all parties to the transaction (including promoters, advisors, and tax-indifferent, accommodating parties).

The centerpiece of the substantive law proposal is not a new standard, but rather is intended as a coherent articulation of the economic substance doctrine first found in seminal case law such as *Gregory v. Helvering* and most recently utilized in ACM, Compaq, IES and Winn Dixie. The economic substance doctrine requires a comparison of the expected pre-tax profits and expected tax benefits. Codification of the doctrine would create a consistent standard so that taxpayers may not pick and choose between conflicting decisions to support their position. Codification also would isolate the doctrine from the facts of the cases so that taxpayers could not simply distinguish the cases based on the facts.

Additional Regulatory Action

Of course, we will continue to combat corporate tax shelters with the tools we have available under current law. The Administration has worked with Congress in enacting legislation that shut down specific abusive schemes that have come to light. In the last year, the Treasury and the IRS issued various notices, revenue rulings and regulations stopping several tax shelters including so-called "BOSS" transactions, "lease-in/lease-out" or "LILO" transactions, fast-pay stock issuances, and "chutzpah" trusts. Also, the IRS has won several significant court victories, successfully arguing that various shelter transactions lacked economic substance.

Modernization and Reorganization of the IRS

The restructuring of the IRS into business units will enhance the ability of the IRS to address the corporate tax shelter problem by facilitating the centralization and coordination of its efforts. This will help provide additional taxpayer safeguards, while at the same time allowing the IRS to identify and address transactions more quickly and efficiently.

We will be releasing our year 2000 business plan imminently. It is very ambitious, including several more items than last year's plan -- a year in which we released a record amount of formal guidance. This year's guidance plan reflects greater formal input from taxpayers, tax practitioners and industry groups. Suggestions were carefully considered by the newly formed Published Guidance Advisory Committee. This, we believe, will result in a comprehensive plan that is extremely responsive to taxpayer needs.

One area that taxpayers are clamoring for guidance relates to the issue of whether certain costs must be capitalized or can be expensed – the so-called "INDOPCO issue." This issue has been present since the beginning of the income tax. The Treasury and the IRS take this issue very seriously. In 1996, we issued Notice 96-7, asking for comments on how this issue can be best addressed in the guidance process. Not unexpectedly, many of the comments can be summarized as "Fix my problem, and by the way, the answer is current deductibility."

Thus, for the last several years, Treasury and the IRS have embarked on a guidance process that attempted to analyze and provide guidance in the framework of specific fact patterns, generally in the form of revenue rulings. Although a revenue ruling appears to be short and simple, let me assure you that its development is not. Providing such guidance is extremely resource intensive, both from the government's and taxpayer's standpoint, as there needs to be (1) a complete understanding, analysis, and agreements as to the facts, (2) an application of the law to such facts, and (3) consideration of the implications of the holding of one ruling to the fact patterns of other cases.

Although Treasury and IRS have consistently made capitalization guidance a high priority in the last several years and have issued a significant amount of fact-specific guidance, demand continues to outpace supply. For this reason, we believe we must go broader and deeper. Unfortunately, no single "magic bullet" has enabled us to resolve all capitalization issues for once and for all. However, we can and will consider broader topics as (1) whether workable rules can be provided for self-created assets, (2) whether the "plan of rehabilitation" doctrine" can be defined, (3) whether workable rules can be developed for repairs generally, and (4) in what cases de minimis rules are appropriate. We will continue to consider traditional case-specific guidance. However, we should also consider whether new forms of guidance, such as industry settlements and the pre-filing agreements launched by the IRS's Large and Mid-Sized Business division, can be brought to bear.

We welcome your comments and suggestions on how to best proceed. We at Treasury and the IRS realize the importance of the issue and pledge to continue to provide prompt and useful guidance in this area.

I want to thank you again for the opportunity to appear this morning. It is always a pleasure to speak before TEI.

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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

March 21, 2000

The Treasury Department today released U.S. reserve assets data for the week ending March 17, 2000.

As indicated in this table, U.S. reserve assets totaled $70,131 million as of March 17, 2000, up from $69,974 million as of March 10, 2000.

(in US millions)

I. Official U.S. Reserve Assets	March 10, 2000			March 17, 2000		
TOTAL		69,974			70,131	
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves [1]						
a. Securities	4,893	6,040	10,933	4,923	6,050	10,973
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,386	11,693	20,079	8,422	11,711	20,134
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]			17,617			*17,657*
3. Special Drawing Rights (SDRs) [2]			10,297			*10,319*
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 March 10, 2000 are final. Data for SDR holdings and the reserve position in the IMF shown as of March 17, 2000 (in italics) reflect preliminary adjustments by the Treasury to the March 10, 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.

LS-486

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

II. Predetermined Short-Term Drains on Foreign Currency Assets	March 10, 2000	March 17, 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	March 10, 2000	March 17, 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

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FOR IMMEDIATE RELEASE
March 21, 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, with strong investments and higher productivity, creating good jobs and improved living standards for all Americans. We are committed to sustaining this economic success into the future.

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LS-487

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

FEDERAL FINANCING BANK January 31, 2000

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

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $42.2 billion on December 31, 1999, posting a decrease of $690.3 million from the level on November 30, 1999. This net change was the result of a decrease in holdings of agency debt of $601.5 million and in holdings of agency assets of $110.0 million, and an increase in holdings of agency guaranteed loans of $21.2 million. FFB made 90 disbursements during the month of December. FFB also received 15 prepayments in December.

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

LS-489

FEDERAL FINANCING BANK
DECEMBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
AGENCY DEBT				
NATIONAL CREDIT UNION ADMIN. - CLF				
National Credit Union	12/01	$200,000,000.00	12/08/99	5.430% S/A
National Credit Union	12/02	$200,000,000.00	12/09/99	5.399% S/A
National Credit Union	12/03	$200,000,000.00	12/10/99	5.377% S/A
National Credit Union	12/06	$200,000,000.00	12/13/99	5.375% S/A
National Credit Union	12/07	$200,000,000.00	12/14/99	5.346% S/A
National Credit Union	12/08	$200,000,000.00	12/15/99	5.346% S/A
National Credit Union	12/09	$200,000,000.00	12/16/99	5.346% S/A
National Credit Union	12/10	$200,000,000.00	12/17/99	5.377% S/A
National Credit Union	12/13	$200,000,000.00	12/20/99	5.416% S/A
National Credit Union	12/14	$200,000,000.00	12/21/99	5.513% S/A
National Credit Union	12/15	$200,000,000.00	12/22/99	5.513% S/A
National Credit Union	12/16	$200,000,000.00	12/23/99	5.472% S/A
National Credit Union	12/17	$200,000,000.00	12/23/99	5.513% S/A
National Credit Union	12/20	$200,000,000.00	12/27/99	5.562% S/A
National Credit Union	12/21	$200,000,000.00	12/28/99	5.754% S/A
National Credit Union	12/22	$200,000,000.00	12/29/99	5.712% S/A
National Credit Union	12/23	$400,000,000.00	12/30/99	5.681% S/A
National Credit Union	12/27	$200,000,000.00	1/03/00	5.594% S/A
National Credit Union	12/28	$200,000,000.00	1/04/00	5.597% S/A
National Credit Union	12/29	$200,000,000.00	1/05/00	5.534% S/A
National Credit Union	12/30	$200,000,000.00	1/06/00	5.357% S/A
National Credit Union	12/30	$200,000,000.00	1/07/00	5.357% S/A
U.S. POSTAL SERVICE				
U.S. Postal Service	12/01	$1,400,000,000.00	12/02/99	5.482% S/A
U.S. Postal Service	12/01	$326,000,000.00	12/02/99	5.399% S/A
U.S. Postal Service	12/02	$1,325,000,000.00	12/03/99	5.430% S/A
U.S. Postal Service	12/02	$196,300,000.00	12/03/99	5.377% S/A
U.S. Postal Service	12/03	$1,395,000,000.00	12/06/99	5.399% S/A
U.S. Postal Service	12/03	$185,300,000.00	12/06/99	5.375% S/A
U.S. Postal Service	12/06	$950,000,000.00	12/07/99	5.377% S/A
U.S. Postal Service	12/06	$192,100,000.00	12/07/99	5.346% S/A
U.S. Postal Service	12/07	$550,000,000.00	12/08/99	5.375% S/A
U.S. Postal Service	12/07	$221,700,000.00	12/08/99	5.346% S/A
U.S. Postal Service	12/08	$400,000,000.00	12/09/99	5.346% S/A
U.S. Postal Service	12/08	$124,000,000.00	12/09/99	5.346% S/A
U.S. Postal Service	12/09	$140,000,000.00	12/10/99	5.346% S/A
U.S. Postal Service	12/09	$206,400,000.00	12/10/99	5.377% S/A
U.S. Postal Service	12/10	$900,000,000.00	12/13/99	5.346% S/A
U.S. Postal Service	12/10	$335,700,000.00	12/13/99	5.416% S/A
U.S. Postal Service	12/13	$1,330,000,000.00	12/14/99	5.377% S/A
U.S. Postal Service	12/13	$237,300,000.00	12/14/99	5.513% S/A
U.S. Postal Service	12/14	$1,075,000,000.00	12/15/99	5.416% S/A
U.S. Postal Service	12/14	$208,300,000.00	12/15/99	5.513% S/A

FEDERAL FINANCING BANK
DECEMBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
U.S. Postal Service	12/15	$825,000,000.00	12/16/99	5.513% S/A
U.S. Postal Service	12/15	$304,200,000.00	12/16/99	5.472% S/A
U.S. Postal Service	12/16	$600,000,000.00	12/17/99	5.513% S/A
U.S. Postal Service	12/16	$317,900,000.00	12/17/99	5.513% S/A
U.S. Postal Service	12/17	$450,000,000.00	12/20/99	5.472% S/A
U.S. Postal Service	12/17	$282,300,000.00	12/20/99	5.562% S/A
U.S. Postal Service	12/20	$360,000,000.00	12/21/99	5.513% S/A
U.S. Postal Service	12/20	$237,700,000.00	12/21/99	5.754% S/A
U.S. Postal Service	12/21	$150,000,000.00	12/22/99	5.562% S/A
U.S. Postal Service	12/21	$92,500,000.00	12/22/99	5.712% S/A
U.S. Postal Service	12/22	$40,800,000.00	12/23/99	5.681% S/A
U.S. Postal Service	12/23	$850,000,000.00	12/27/99	5.712% S/A
U.S. Postal Service	12/23	$222,600,000.00	12/27/99	5.594% S/A
U.S. Postal Service	12/27	$1,050,000,000.00	12/28/99	5.681% S/A
U.S. Postal Service	12/27	$379,500,000.00	12/28/99	5.597% S/A
U.S. Postal Service	12/28	$1,300,000,000.00	12/29/99	5.594% S/A
U.S. Postal Service	12/28	$27,400,000.00	12/29/99	5.534% S/A
U.S. Postal Service	12/29	$1,025,000,000.00	12/30/99	5.597% S/A
U.S. Postal Service	12/29	$177,600,000.00	12/30/99	5.357% S/A
U.S. Postal Service	12/30	$1,000,000,000.00	1/03/00	5.534% S/A
U.S. Postal Service	12/30	$171,000,000.00	1/03/00	5.346% S/A
GOVERNMENT-GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Foley Square Office Bldg.	12/02	$46,726.00	7/31/25	6.618% S/A
Memphis IRS Service Cent.	12/10	$7,363.24	1/02/25	6.528% S/A
Foley Services Contract	12/14	$40,809.24	7/31/25	6.497% S/A
Foley Services Contract	12/14	$41,502.81	7/31/25	6.497% S/A
Atlanta CDC Lab	12/23	$10,959.70	1/30/02	6.380% S/A
RURAL UTILITIES SERVICE				
Cornbelt Power #376	12/01	$4,684,000.00	12/31/14	6.308% Qtr.
Georgia Trans. Corp. #559	12/02	$20,000,000.00	1/03/05	6.100% Qtr.
Georgia Trans. Corp. #559	12/02	$15,804,752.00	1/03/05	6.100% Qtr.
Cimarron Electric #567	12/03	$1,275,000.00	1/03/34	6.374% Qtr.
Big Sand Elec. #540	12/06	$800,000.00	3/31/00	5.455% Qtr.
Blue Ridge Elec. #512	12/07	$2,000,000.00	1/03/33	6.423% Qtr.
Brazos Electric #561	12/08	$5,604,000.00	3/31/00	5.295% Qtr.
Craig-Botetourt #570	12/13	$1,000,000.00	1/03/34	6.206% Qtr.
Pee Dee Elec. #547	12/13	$2,050,000.00	12/31/29	6.243% Qtr.
South Texas Electric #505	12/14	$222,000.00	12/31/24	6.449% Qtr.
Marshalls Energy Co. #458	12/16	$50,000.00	1/02/18	6.749% Qtr.
Garland Light & Power #558	12/17	$273,000.00	1/03/34	6.439% Qtr.
Surry-Yadkin Elec. #534	12/20	$1,000,000.00	3/31/00	5.477% Qtr.
Molalla Tele. Co. #420	12/21	$1,183,000.00	12/31/14	6.499% Qtr.
Cornbelt Power #376	12/27	$786,000.00	12/31/14	6.526% Qtr.
Hawkeye Tri-County Elec. #509	12/28	$366,000.00	1/03/33	6.640% Qtr.

FEDERAL FINANCING BANK
DECEMBER 1999 ACTIVITY

Borrower	Date	Amount of Advance	Final Maturity	Interest Rate
Johnson County Elec. #500	12/28	$1,200,000.00	12/31/29	6.675% Qtr.
Altamaha Elec. #467	12/30	$3,500,000.00	12/31/31	6.514% Qtr.
Tri-State #439	12/30	$3,813,000.00	12/31/25	6.709% Qtr.
Tri-State #440	12/30	$2,806,000.00	1/02/24	6.714% Qtr.
Tri-State #475	12/30	$4,794,000.00	12/31/25	6.709% Qtr.
Upsala Coop. Tele. #429	12/30	$600,000.00	6/30/00	5.745% Qtr.

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

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	December 31, 1999	November 30, 1999	Monthly Net Change 12/1/99-12/31/99	Fiscal Year Net Change 10/1/99-12/31/99
Agency Debt:				
U.S. Postal Service	$4,671.0	$5,472.5	-$801.5	-$1,608.1
National Credit Union Adm.-CLF	$1,041.0	$841.0	$200.0	$1,041.0
Subtotal*	$5,712.0	$6,313.5	-$601.5	-$567.1
Agency Assets:				
FmHA-RDIF	$3,410.0	$3,410.0	$0.0	$0.0
FmHA-RHIF	$6,665.0	$6,775.0	-$110.0	-$460.0
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*	$14,678.8	$14,788.8	-$110.0	-$460.0
Government-Guaranteed Lending:				
DOD-Foreign Military Sales	$2,582.5	$2,595.3	-$12.8	-$28.4
DoEd-HBCU+	$20.8	$20.8	$0.0	$9.8
DHUD-Community Dev. Block Grant	$12.8	$12.9	-$0.1	-$0.8
DHUD-Public Housing Notes	$1,348.5	$1,348.5	$0.0	-$71.4
General Services Administration+	$2,370.0	$2,392.3	-$22.3	-$34.9
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	$14,084.8	$14,025.3	$59.5	$199.8
SBA-State/Local Development Cos.	$183.7	$186.7	-$3.0	-$10.2
DOT-Section 511	$3.7	$3.7	$0.0	$0.0
Subtotal*	$21,761.6	$21,740.4	$21.2	$63.8
Grand total*	$42,152.4	$42,842.7	-$690.3	-$963.3

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EMBARGOED UNTIL 2:30 P.M.
March 22, 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 $26,879 million of publicly held securities maturing March 31, 2000, and to pay down about $14,879 million.

In addition to the public holdings, Federal Reserve Banks hold $3,515 million of the maturing securities for their own accounts, which may be refunded by issuing an additional amount of the new security.

The maturing securities held by the public include $3,264 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 $779 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, March 29, 2000, results in a yield in a range of 6.625 percent through and including 6.749 percent, the 2-year notes will be considered an additional issue of the outstanding 6-5/8% 5-year notes of Series E-2002 (CUSIP No. 9128272P6) originally issued March 31, 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 $14,301 million.

If the auction results in the issuance of an additional amount of the Series E-2002 notes rather than a new 2-year note, it will be noted in the Treasury auction results press release. In the event of a reopening, all amounts outstanding for CUSIP No. 9128272P6, including the 5-year notes issued March 31, 1997, would be eligible for the STRIPS program.

oOo

Attachment LS-490

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF
2-YEAR NOTES TO BE ISSUED MARCH 31, 2000

March 22, 2000

Offering Amount ....$12,000 million

Description of Offering:
Term and type of security ....2-year notes
Series T-2002
CUSIP number 912827 6B 3
Auction date ....March 29, 2000
Issue date ....March 31, 2000
Dated date ....March 31, 2000
Maturity date ....March 31, 2002
Interest rate ....Determined based on the highest accepted competitive bid
Yield ....Determined at auction
Interest payment dates ....September 30 and March 31
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 EP 8
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.

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For Immediate Release
March 22, 2000

Contact: Public Affairs
(202) 622-2960

PHOTO ADVISORY

Treasury Secretary Lawrence H. Summers will launch the production of the redesigned $10 dollar notes **on Thursday, March 23 at 9 a.m. at the Bureau of Engraving and Printing.**

Media interested in attending should call (202) 874-3545 by 7:00 a.m. Thursday, March 23 with name and news organization for clearance into the building. All media should enter the 14th Street south alley entrance (past the BEP building), at which point all pre-registered media will be escorted into the building. Pre-set begins at 8 a.m.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 20, 2000

ADMINISTRATION POLICY STATEMENT
Advisory Commission on Electronic Commerce Meeting
Dallas, Texas

Electronic Commerce and the associated explosion of the information technology sector are key sources of economic growth in the United States and around the world. Since issuing his *Framework for Global Electronic Commerce* in July 1997, the President and the entire Administration have focused on creating a policy environment in which this new medium of commerce will flourish.

This Commission was charged with examining some of the most difficult issues associated with this evolving marketplace. The three Administration representatives participated fully in the Commission's deliberations. They assessed the issues before the Commission on the basis of two fundamental principles:

- the Internet and electronic commerce should not be subject to discriminatory taxes;
- tax policy in this area should be neutral, nondiscriminatory, simple, certain, fair, and flexible.

Applying these principles, the Administration representatives reached the following conclusions regarding the key issues before the Commission:

LS-492

1. **Internet Access Taxes**

The current statutory moratorium on Internet access taxes should be made permanent.

It is critically important to encourage access to the Internet. Because taxes on Internet access would create an obstacle to the access of all Americans to the Internet, and in turn, their ability to participate in electronic commerce, these taxes should be prohibited permanently.

2. **Multiple and Discriminatory Taxes**

The current statutory moratorium on multiple and discriminatory taxes should be extended.

Multiple or discriminatory taxes on electronic commerce plainly would hinder its development. This existing statutory moratorium should be extended, and final protections against such taxes should be crafted after the States develop simplified sales tax systems.

3. **State and Local Taxes on Telecommunications**

States and local governments should work expeditiously, in conjunction with the private sector to simplify and reform these taxes. The goal of these reforms should be neutrality in taxation of telecommunications as compared to other sectors as well as neutrality in taxation of providers of similar telecommunications services.

This complex web of taxes is in large part a relic of the time when telecommunications services were a regulated monopoly and when taxes on these services were passed on to consumers through the regulated rate structure. Today, telecommunications on all levels have moved from regulated monopoly to competitive market, and the line between telecommunications and other types of services becomes less clear every day. State and local governments have recognized the pressing need for reform in this area. We believe that these governments, working in cooperation with businesses and consumers, can accomplish this goal.

4. <u>State and Local Sales and Use Taxes</u>

States and localities should develop a simplified sales and use tax system within two years. During that time, the current rules governing this area, which were established by the Supreme Court, should remain unchanged.

While this simplified system is being developed, States and localities should engage in a dialogue with businesses and consumers to address the complex and difficult issues regarding the application of these taxes to Internet sales. These issues include:

-- **fairness to both Internet businesses and 'bricks and mortar' businesses;**

-- **significantly reducing or eliminating the cost to businesses of collecting these taxes;**

-- **the effect of these taxes on the international competitiveness of U.S. Internet companies;**

-- **whether lower-income Americans are paying, or will be required to pay, an unfair and disproportionate share of state and local sales taxes;**

-- **ensuring protection of consumer privacy; and**

-- **the feasibility of imposing and collecting sales taxes on goods delivered digitally over the Internet (software, music, etc.).**

The application of sales tax laws to Internet transactions raises difficult issues. It is essential that we maintain the vitality of electronic commerce, which is one of the primary drivers of our economy. It also is essential that States and localities have the revenues they need to provide citizens with essential services – such as education, police, fire protection. Addressing this issue is extraordinarily complex for a number of reasons, including the fact that policymakers do not now have all of the information they need. Everyone agrees, however, that simplification is the key. So the States should proceed in developing a model act that produces real and effective simplification, while discussion on the other issues continues. While the model act is being developed, which is estimated to take two years, the current sales and use tax rules, established by the Supreme Court, should remain in place; they plainly have not hindered the growth of electronic commerce. In the event of any change in existing rules governing the application of sales and use taxes to Internet sales, there should be full accountability so that citizens of each State can determine the appropriate consequences of any projected increase in revenue.

5. **Federal Excise Tax on Communications**

Phase out of this tax is a worthy policy objective and should be considered, but must be weighed against other worthy objectives including other proposed tax reductions, and must not be allowed to threaten the important priorities of maintaining fiscal discipline, paying down the national debt, extending the solvency of Medicare and Social Security, and maintaining core government functions such as health care and education.

This tax contributes more than $4 billion in revenue per year and $52 billion over ten years. Because of this substantial budgetary impact, phasing out of the tax cannot be considered in a vacuum, but must be weighed against other important priorities.

6. **Customs Duties**

The current moratorium on customs duties on electronic transmissions should be made permanent.

Maintaining the moratorium on customs duties on electronic transmissions is a goal shared both domestically and internationally. There is a broad recognition that imposing customs duties on electronic transmissions would only undermine the ability to attract the investment and technology necessary to build and develop an e-commerce infrastructure.

7. **International Taxation**

Any taxation of electronic commerce should be neutral, nondiscriminatory, simple, certain, fair and flexible.

Regarding international taxation of electronic commerce, our view is that any taxation of electronic commerce should be neutral and non-discriminatory. We must continue to work within the Organization for Economic Cooperation and Development (OECD) to agree on tax rules based on the principle of neutrality and other core principles, such as simplicity, certainty and fairness. We must also continue to work with non-OECD member countries. Global electronic commerce should not be impeded by globally inconsistent tax treatment and thus a global consensus must be reached regarding appropriate taxation.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 2:30 P.M.
March 23, 2000

CONTACT: Office of Financing
202/691-3550

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $35,000 million of 21-day cash management bills and $30,000 million of 19-day cash management bills, both to be issued on March 30, 2000.

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 auctions 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.

NOTE: Competitive bids in cash management bill auctions must be expressed as a discount rate with two decimals, e.g., 7.10%.

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 securities are given in the attached offering highlights.

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF CASH MANAGEMENT BILLS TO BE ISSUED MARCH 30, 2000

March 23, 2000

Offering Amount	$35,000 million	$30,000 million
Description of Offering:		
Term and type of security	21-day bill	19-day bill
CUSIP number	912795 DS 7	912795 GX 3
Auction date	March 28, 2000	March 29, 2000
Receipt of Tenders (Eastern Standard time):		
Noncompetitive tenders	Prior to 12:00 noon on auction day	Prior to 11:00 a.m. on auction day
Competitive tenders	Prior to 1:00 p.m. on auction day	Prior to 11:30 a.m. on auction day
Issue date	March 30, 2000	March 30, 2000
Maturity date	April 20, 2000	April 18, 2000
Original issue date	October 21, 1999	March 30, 2000
Currently outstanding	$23,989 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 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

Payment Terms .... By charge to a funds account at a Federal Reserve Bank on issue date, or payment of full par amount with tender.

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EMBARGOED UNTIL 2:30 P.M.
March 23, 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 $16,000 million to refund $27,332 million of publicly held securities maturing March 30, 2000, and to pay down about $11,332 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $12,532 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 $7,696 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 $941 million into the 13-week bill and $1,226 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.

As announced on February 2, 2000, the Treasury Department has reduced the frequency of issuance of 52-week bills from every fourth week to four times a year. The last 52-week bill issued on the four-week basis was March 2, 2000. The next issue will be June 1, 2000.

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF BILLS
TO BE ISSUED MARCH 30, 2000

March 23, 2000

<u>Offering Amount</u>	$8,500 million	$7,500 million
<u>Description of Offering</u>:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 EC 1	912795 FB 2
Auction date	March 27, 2000	March 27, 2000
Issue date	March 30, 2000	March 30, 2000
Maturity date	June 29, 2000	September 28, 2000
Original issue date	December 30, 1999	March 30, 2000
Currently outstanding	$11,676 million	---
Minimum bid amount and multiples	$1,000	$1,000

<u>The following rules apply to all securities mentioned above</u>:

<u>Submission of Bids</u>:

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

Competitive bids............ (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.

(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.

(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

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

<u>Receipt of Tenders</u>:

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

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

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

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
March 23, 2000

STATEMENT BY TREASURY DEPUTY SECRETARY STUART E. EIZENSTAT

This is a great day. We have taken a huge step forward today. We achieved a consensus agreement on the allocation of the 10 billion D-Marks in the German Foundation to which all parties have agreed -- German business led ably by Dr. Manfred Gentz, the countries of Poland, Ukraine, Russia, Belarus, and the Czech Republic, the State of Israel, the Jewish Claims Conference, and the attorneys who represent victims in U.S. courts. I would like to express special appreciation to the German Parliamentarians for their tireless support and assistance. This is a remarkable achievement, in particular for the German government and the Chancellor's gifted Special Representative, Otto Count Lambsdorff. This brings this process a substantial step closer to completion.

To achieve this consensus, all of the participants in these negotiations have had to make compromises, because there is only a limited amount of money in the foundation. All had to show flexibility from their initial demands.

Count Lambsdorff and I met with each group of participants. All vigorously defended their positions, but all recognized the larger imperative of reaching agreement now, so that funds could promptly go to survivors. Count Lambsdorff and I introduced a joint proposal that sought to meet the basic needs of each participant.

I am pleased to report that all participants have given their assent to our joint proposal. This could not have been done without all parties demonstrating flexibility and a spirit of compromise. For that, I express gratitude and appreciation to each participant.
At the same time, what we have achieved today is a fair agreement that takes account of the interests of all parties.

Let me outline the allocation agreement that we have achieved:

There will be 8.1 billion DM allocated to make payments to surviving slave and forced laborers and to others for other personal injuries.
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The German Foundation will allocate the 8.1 billion from within the 10 billion to labor. The 8.1 billion will be increased by anticipated interest earnings of 50 million, for a total of 8.150 DM. We also hope there will be a contribution from the Swiss settlement to the Foundation.

The labor payments would be allocated among seven partner organizations: the Conference on Jewish Material Claims, the five Reconciliation Foundations in Poland, Ukraine, Russia, Belarus, and the Czech Republic, and a yet to be designated organization for the rest of the world. In addition, the Foundation will hold an amount in reserve for other personal injury cases.

Here are the agreed allocations, including an amount of estimated earned interest:

Claims Conference:	1.812 billion
Poland:	1.812 billion
Ukraine:	1.724 billion
Russia:	835 million
Belarus:	694 million
Czech Republic:	423 million
Rest of the World:	800 million
Other Personal Injury:	50 million

The allocations to the Conference on Jewish Material Claims will reach surviving slave laborers residing outside of the five Central and East European Countries. The Reconciliation Foundations in the five CEEs will handle payments to all their citizens, including Jewish slave laborers.

Aside from labor, our agreement on allocation also covered the other categories in the Foundation: property, the Future Fund and administration.

We agree that the allocation to property will be one billion D-Marks. The one billion will be divided as follows: 350 million for claims and a 650 million for humanitarian cases.

The 350 million DM claims portion will be allocated as follows:

1. 150 million for racially-motivated property claims against German companies.

2. 50 million for all other property claims against German companies.

3. 150 million for insurance claims, which will be supplemented by an additional 50 million to be generated from interest earned.

There will also be a reserve of 100 million in the Future Fund to cover any additional insurance claims if necessary - creating the potential for 300 million in insurance claims, if required.

The 650 million DM humanitarian portion will between insurance and property.

The insurance portion of the settlement involving both claims and non-claims will be consistent with the procedures established by the International Commission on Holocaust Era Insurance Claims.

Finally, we have agreed that 200 million DM will be reserved for administration of the Foundation.

With this allocation agreement, we have now concluded a key element of our December, 1999 agreement for the funding of the German Foundation.

Today's agreement puts in place two of the three important elements of this settlement -- the overall figure of DM 10 billion and allocation of the funds. A key third element -- legal peace for German firms -- requires agreement on provisions affecting actions before U.S. courts. The Federal Cabinet approved a draft law yesterday, which will help move the legislation through the Bundestag. But, as I have stated often, the final law will be the linchpin of the legal settlement. I cannot overemphasize this point. The German legal basis for the Foundation will be examined carefully by our courts. If it does not incorporate the substance of the agreements reached here, it will not be deemed to be sufficient basis for dismissal of the lawsuits or for the U.S. to act in support of that goal.

In conclusion, I want to re-emphasize the significance of today's achievement, and I look forward to continuing to work on the remaining issues in the coming weeks.

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	JOINT CHAIRMEN'S PROPOSAL							
LABOR	**Suballocation Amount (Billion DM)**	**Amount (Billion DM)**	**Percentage of Amount for Labor**	**Overall Percentage**	***Supplemental Funds (Billion DM)***	***Suballocation Amount with Supplemental Funds (Billion DM)***	***Percentage of Amount for Labor with Supplemental Funds***	***Supplemental Funds Comments***
Slave Labor	3.630 DM				***0.100 DM***			*Swiss Fund*
Forced Labor	4.420 DM							
Capital for Slave and Forced Labor		8.050 DM		80.50%				
Suballocations (Slave and Forced Labor Combined)								
Partner Organizations:								
Claims Conference	1.812 DM		22.51%			*1.812 DM*	*22.37%*	
					0.050 DM			*Interest Earned to CEEs*
Poland	1.796 DM		22.31%			*1.812 DM*	*22.37%*	
Ukraine	1.709 DM		21.22%			*1.724 DM*	*21.29%*	
Russia	0.828 DM		10.28%			*0.835 DM*	*10.31%*	
Belarus	0.687 DM		8.54%			*0.694 DM*	*8.56%*	
Czech Republic	0.419 DM		5.21%			*0.423 DM*	*5.22%*	
Rest of Eastern Europe & Rest of World (incl. Sinti and Roma)	0.800 DM		9.94%			*0.800 DM*	*9.88%*	
Other Personal Injury Cases		0.050 DM		0.50%				
TOTAL CAPITAL FOR LABOR		**8.100 DM**		81.00%	***8.250 DM***			
TOTAL CAPITAL FOR NON-LABOR		**1.000 DM**		10.00%				
Banking Claims	0.150 DM							
Other Property Claims/Catch-all	0.050 DM							
Banking Humanitarian	0.300 DM							
Insurance Claims	0.150 DM				***0.050 DM***			*Interest Earned*
Insurance Humanitarian/ICHEIC	0.350 DM							
FUTURE FUND		**0.700 DM**		7.00%				
Programs for Heirs								
Reserve for Insurance Claims	0.100 DM							
ADMINISTRATION		**0.200 DM**		2.00%				
TOTAL CAPITAL FOR NON-LABOR, FUTURE FUND AND ADMINISTRATION		1.900 DM			***1.950 DM***			
TOTAL FOUNDATION CAPITAL		**10.000 DM**		100.00%				

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FOR IMMEDIATE RELEASE
March 24, 2000

Contact: Public Affairs
(202) 622-2960

SUMMERS ANNOUNCES PARTNERSHIP AT GEORGE WASHINGTON HIGH SCHOOL

Treasury Secretary Lawrence H. Summers on Friday will announce a partnership between Treasury and the School of International Business and Finance (SIB&F) at George Washington High School in New York, NY, the first academy to benefit from the new partnership in the New York area.

Under the partnership agreement, Treasury will support SIB&F academies by providing internships to academy students. Treasury will coordinate the internships through its Partnership in Education (PIE) Program, which began in 1995. Treasury will work with SIB&F through its bureaus nationwide to prepare students for college and careers in both the private and public sector.

"This partnership between the Treasury and the School of International Business and Finance is an important step for George Washington High School and we look forward to similar partnerships in the future," Secretary Summers said. "At George Washington and other public schools across the nation, Treasury has provided and will continue to provide students with the opportunity to learn skills that will prepare them for the workplace."

George Washington High School has a number of prominent alumni including: Federal Reserve Chairman Alan Greenspan, former Senator Jacob Javitz, former Secretary of State Henry Kissinger, singer Henry Belefonte and former baseball legend Rod Karen.

Summers will be joined by former Treasury Secretary Rubin, IRS Commissioner Charles O. Rossotti, Representative Charles B. Rangel and other school administration officials for the signing of the Memorandum of Understanding.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
March 24, 2000

STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS

We welcome the approval by the Senate Foreign Relations Committee of the Administration's proposals for debt relief for the world's poorest countries. Under the bipartisan leadership of Chairman Jesse Helms and Ranking Member Joseph Biden, the Committee has taken a very important step forward toward fulfilling last year's promise for the global HIPC initiative. We look forward to continuing our work with the Congress to provide the critical funding needed to move ahead without delay, beginning with the pending supplemental budget request.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:00 PM EST
Text as Prepared for Delivery
March 27, 2000

TREASURY ASSISTANT SECRETARY FOR ECONOMIC POLICY DAVID W. WILCOX TESTIMONY BEFORE THE SENATE SPECIAL COMMITTEE ON AGING

Mr Chairman, Senator Breaux, and Members of the Committee, I appreciate the opportunity to present the Administration's views on the topic of general revenue transfers to Social Security and Medicare. These transfers play an important role in the Administration's thinking about how to address the long-term financing challenges confronting these programs, as well as an important role in our budget framework, and I am pleased to discuss them with you today.

The Social Security and Medicare programs are the cornerstones of American social policy. Social Security benefits are the largest source of income for nearly two-thirds of Americans age 65 and older, and the only source of income for nearly one-fifth of them. And Social Security is more than just a retirement plan; it is, in addition, a family protection plan, paying survivors' benefits and disability benefits to millions of Americans under age 65.

Medicare plays an equally important role in the lives of older Americans. In 1963, nearly half of Americans over the age of 65 had no health insurance. Today, virtually all older Americans have health insurance through Medicare, and thereby have access to the kind of high-quality, dependable medical care that can help extend their lives and improve the quality of their lives.

Today, nearly everyone agrees on the importance of Social Security and Medicare, and the crucial role they will continue to play for senior citizens in the 21st Century. Unfortunately, while both programs are on solid financial ground in the near term, they both face financing challenges over the longer term. The key factors behind the funding shortfall are the aging of the U.S. population and, for Medicare, the projected increase in spending per beneficiary due to rapid advances in health care technology. As a result, significant steps will need to be taken to put these programs on a secure foundation for the long term.

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The Administration believes that, while they are by no means the whole solution, general revenue transfers are an appropriate and important *part* of the solution to the financing problems faced by Social Security and Medicare. A comprehensive solution should include structural reforms to these programs. The President has expressed his desire to work with Congress in a bipartisan fashion on broader Social Security reform. And he has put forward a specific proposal for Medicare reform that would: make the program more competitive and efficient; modernize its benefits, including the addition of a long overdue prescription drug benefit, and extend the life of the trust fund.

In my testimony today, I will address three topics:

- first, the opportunity for pre-funding provided by our favorable budget outlook;
- second, the proposal that the President has put forward for limited and prudent general revenue transfers into Social Security and Medicare; and
- third, the way that the transfers would help to prepare the economy and the budget for the coming demographic changes.

The Budget Outlook and the Opportunity for Pre-Funding

The Current Situation

The American economy is now enjoying its best performance in decades. The unemployment rate has been below 5 percent since July of 1997, and inflation has averaged just over 2 percent during the same period. Productivity growth in nonfarm businesses has averaged nearly 3 percent over the past four years – the strongest performance for any such period since the late 1960s. Real wages have increased, even for low-wage workers who had not previously experienced proportionate increases in their earnings. Altogether, the economic expansion has now become the longest in U.S. history and remains quite robust.

The Federal budget picture is equally bright. The skills and efforts of American workers and businesses have combined with a policy of fiscal discipline to produce budget surpluses that even optimists would not have predicted 7 years ago. In the budget agreements of 1993 and 1997, the President worked with Congress to balance the budget, and he is now working with Congress to save the surpluses. Strong economic performance has boosted revenues and reduced outlays, and our continued focus on fiscal discipline is helping to sustain the expansion.

Last year, the budget was balanced even leaving aside the operations of the Social Security system, the first time in nearly 40 years that this occurred. In 1998 and 1999, we paid down $140 billion of public debt; during this fiscal year alone, we expect to pay down $157 billion more. Perhaps most encouraging of all, we have forged a bipartisan consensus in favor of using the Social Security surpluses exclusively for the purpose of paying down the debt held by the public. Indeed, under the projections of the President's policies that were presented in the budget, we are on a path toward eliminating this debt, on a net basis, by 2013.

The Challenge

Nevertheless, the aging of the U S population and the resulting demands on the Social Security and Medicare trust funds are hard upon us The oldest members of the baby boom generation will reach the age for earliest eligibility for Social Security benefits within this decade They will become eligible for Medicare benefits a few years later All told, the number of Americans over age 65 is projected to double by 2033, and seniors will represent about 20 percent of the population compared with roughly 12 percent today

This remarkable demographic shift will push up both Social Security and Medicare outlays Medicare costs will be boosted further by continued improvement in the types and quality of medical care that will be available To be sure, some of these advances in pharmaceutical treatments, bioscience, and medical technology will reduce costs, but many others are likely to raise the cost of providing state-of-the-art care.

In this context, the question arises Could general revenue transfers be one part of the solution to the long-term funding challenges confronting Social Security and Medicare? The Administration firmly believes that they *could*, and they *should*.

The President's Proposal for General Revenue Transfers

Social Security

The President proposes in this year's budget, as he did in last year's budget, to transfer resources from the government's General Fund into the Social Security Trust Funds The amount of these transfers is motivated by the interest savings that would be achieved by using the Social Security surpluses to pay down debt These transfers would begin in 2011, after a decade of debt reduction, and continue through 2050 The transfers would extend the projected solvency of Social Security to 2050, or – if combined with the modest amount of equity investment proposed by the President – to 2054

The transfers would shift resources from the on-budget account to the off-budget account, and thereby reduce the on-budget funds available for spending or tax cuts At the same time, they would augment the Social Security funds protected by the President's proposed lockbox by an equal amount Thus, the transfers would be matched dollar-for-dollar by an increase in government saving and – accordingly – an improvement in the government's balance sheet

Medicare

The President also proposes to transfer additional resources over and above current law from the General Fund into the Trust Fund for Medicare Part A These transfers would begin in 2001 and continue through 2015 Together with the President's comprehensive proposal for Medicare reform, the transfers would extend the projected solvency of the Medicare trust fund to at least 2025 The President's program would also combine general revenue with beneficiary premiums to pay for the new prescription drug benefit, analogous to the current financing arrangement for Medicare Part B.

The Medicare transfers take place within the on-budget account, so they would not represent an on-budget outlay in the traditional sense. However, the President's Medicare legislation would require the reported on-budget surplus to be reduced by the amount of the transfers. In parallel with the approach we are recommending for the transfers into Social Security, our proposed accounting treatment of the transfers into Medicare would ensure that these funds are, in fact, used to improve the government's balance sheet and not for other purposes.

Relation to Pre-Funding Under Current Law

To summarize, the transfers proposed by the President would bring new resources into the Social Security and Medicare Trust Funds, allowing them to better meet their existing commitments. The transfers would also cause the government to run a bigger surplus than otherwise, because the amounts transferred could not be used for new spending or tax cuts. An essential aspect of the President's policy is that the transfers to the respective trust funds over and above current law would be backed dollar-for-dollar by increments to the unified budget surplus, and hence by equal-sized improvements in the government's balance sheet.

I also want to emphasize the close conceptual relationship of these actions to the pre-funding already provided for in current law. It is enormously important that a bipartisan consensus has now coalesced around the idea that Social Security surpluses should be used to pay down the debt held by the public. The core economic principle behind both this approach to pre-funding and the framework for general revenue transfers that we have proposed is exactly the same: that Trust Fund accumulations should be matched dollar-for-dollar by an improvement in the government's balance sheet.

Comprehensive Reform

Transfers of general revenue to Social Security and Medicare would make an important contribution to the long-term financial soundness of these programs. But I want to emphasize that we view these transfers as only *part* of the solution to the projected funding shortfalls. As the President has consistently stated, structural reforms are another essential part of preparing these programs for the 21st Century.

The President has made clear his interest in working with the Congress to enact reasonable changes that would extend Social Security solvency still further while reducing poverty among elderly women. As the President said last week, we should build on the bipartisan spirit evidenced in the elimination of the retirement earnings test for people over the age of 65 by enacting our proposed transfers as a down-payment on comprehensive Social Security reform.

The President has also put forward a detailed and comprehensive proposal for Medicare reform. This proposal would modernize Medicare by adding a prescription drug benefit, and it would give the program more flexibility to use private-sector purchasing mechanisms. The proposal would also require traditional fee-for-service Medicare and managed-care plans to compete head-to-head on price and quality. By improving efficiency in Medicare, we believe that it is possible to both raise quality and reduce costs. Yet, even with comprehensive reform, extending solvency to at least 2025 without the proposed transfers would require severe cuts in benefits, sharp increases in payroll tax revenues, or drastic cuts in provider payments.

Clearly, general revenue transfers are a complement to structural reforms of Social Security and Medicare, not a substitute. Just as clearly, the scale of the future demands on both programs implies that structural reforms will not be enough. These programs will need the additional resources that general revenue transfers would provide.

It is also worth emphasizing that our proposal preserves fiscal discipline at its core, because under the approach we are proposing, each dollar of transfer effectively must be funded out of available on-budget surpluses. To illustrate, consider the situation in 2011, when we project that the combined Social Security and Medicare transfers would be $122 billion. With these transfers, there would be $122 billion less in on-budget resources available for policies that reduce receipts or increase outlays. This is simply not a situation, contrary to what is sometimes charged, where arbitrary amounts of bonds can be added to the trust funds

Indeed, when all is said and done, the lion's share of funding for Social Security and Medicare would still come through the traditional channels. For Social Security, the present value of our proposed general revenue transfers would represent less than 7 percent of the present value of all projected Social Security revenues over the next 75 years. And for Medicare, the proposed general revenue transfers would represent a similarly small portion of the total resources projected to flow into the Part A trust fund over the next 25 years.

Preparing the Economy and the Budget to Meet Future Commitments

The transfers that the President has proposed would improve the budget outlook and better prepare the Federal government to meet our existing commitments to Social Security and Medicare. And because additional government saving would boost national saving, the transfers would better prepare the economy as a whole to meet the challenge posed by an aging population. Let me elaborate briefly on these points.

Improving the Budget Outlook

Paying down the debt improves the budget outlook in several ways. First, it will reduce interest payments, creating future "fiscal space" that can be devoted to Social Security, Medicare, or other government functions. We now spend more than $200 billion each year making net interest payments on the debt held by the public. If we pay off the debt, that amount will be freed up for other uses – such as paying Social Security and Medicare benefits as the baby boom generation retires.

Second, paying down the debt now puts us in a stronger position for any future contingency. The extra government saving can be thought of as an important insurance policy against the possibility that the future turns out to be less bright than we currently project.

Strengthening the Economy

Paying down the debt also strengthens the economy. For the nation as a whole, the central challenge of population aging is to provide a high standard of living for both workers and retirees, even though a smaller share of the population will be in the workforce. A natural solution is to make workers more productive in the future by increasing saving and investment now.

Reducing government debt raises national saving, because private saving is supplemented by public saving rather than being drained by public borrowing. More resources are made available for private investment, and capital accumulation proceeds more rapidly. Over the long run, national wealth and the productive capacity of our economy will be that much greater, leading to higher standards of living. At the same time, a larger economy will generate more tax revenue at the same tax rate, making it easier to meet our existing fiscal obligations.

Less government borrowing also helps to hold down interest rates. Of course, interest rates are affected by many factors, including inflation, international developments, and private saving and borrowing decisions. However, a broad consensus of economists believes that reducing the government's public debt will allow for lower interest rates over time than if the debt increased or were held steady.

Conclusion

In conclusion, the President has proposed a disciplined program of general revenue transfers to Social Security and Medicare, in which each dollar of transfer would be matched dollar-for-dollar by a reduction in debt held by the public. This policy would result in incremental government saving, over and above what would happen if we merely agreed to balance the on-budget account. The additional government saving this policy would generate would make both the economy and the government better able to meet the demands of the growing number of retirees.

The Administration believes that dedicating the benefits of debt reduction to Social Security and Medicare is the best use of those funds. Simply put, we should be sure that we can finance our existing commitments before launching new programs or tax cuts. And we should work together to enact the structural reforms to these programs that are also needed. This is why the President has consistently grounded his budgets in a framework of debt reduction, fiscal responsibility, and prudent stewardship of our long-term economic prospects.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 27, 2000

"AN AMERICAS FOR THE 21ST CENTURY AND THE ROLE OF THE IDB"
REMARKS BY TREASURY SECRETARY LAWRENCE H. SUMMERS
INTER-AMERICAN DEVELOPMENT BANK ANNUAL MEETINGS
NEW ORLEANS, LA

It is a pleasure to be greeting you on home ground. Thank you, Enrique, for another successful year at the IDB. And thank you, Governors, for your support for our Chairmanship of the Board of Governors for the next year, which we hope will build on the successes of the past year: resolving the financing and structure of the Inter-American Investment Corporation, and moving on to the discussion of the strategic direction of the Bank and ensuring full participation in the expanded Highly Indebted Poor Countries (HIPC) initiative.

It seems a long time ago now, when I attended my first IDB meeting in Guadalajara in 1994. The Clinton Administration was a little more than one year-old. NAFTA was younger still. And the Mexican peso crisis was only lurking in the wings. At that time, we knew that the 1990s were a decade of change and reform. What we did not know was how it would end.

Six years – and one and half Administrations – later, we know the answer. It was a decade of many things – of sudden financial crises and natural disasters, and some hard-fought elections. But most of all, we can now say that for Latin America the 1990s were the decade that reforms were sustained.

That "quiet revolution" that President Clinton has spoken of, "bringing our hemisphere together around common values of democracy, free markets, mutual respect and cooperation" – that revolution has continued. And its core ingredients are very largely in place. We are, with but one exception, a community of democracies. Governments supportive of markets are in office across the region. And the United States today exports more to Chile than to India, and more to Brazil than to China.

Today I want to reflect on 3 issues:

- First, what the past decade has meant to Latin America.
- Second, this hemisphere's agenda for the next decade: the creation of a more inclusive and enduring prosperity.

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- Third, how the IDB can best contribute to this agenda in the years to come.

I. The New Latin America

Moments of difficulty always raise a fundamental question: whether to change course, or to redouble one's efforts to pursue the course that had been chosen. As a region, Latin America has largely and emphatically stayed the course.

- In response to financial instability – first in Mexico, and most recently in the wake of the Asian and Russian financial crises of 1997 and 1998;
- In response to devastating natural disasters, from El Nino, to Hurricanes Mitch and George;
- In response to roller-coaster swings of prices in commodity markets;
- In response to the inevitable pressures and stresses of the electoral cycle;

In response to each of these challenges, the governments and peoples of this Hemisphere have pressed forward even more vigorously with the cause of reform. And what has been true of the past decade has been even more true of the past year, as key countries have persevered with reforms have been rewarded for their perseverance by the markets.

- Brazil's crisis, in many respects, turns out to have been stillborn. The impact of last year's devaluation and the turbulence surrounding it will be felt for some time to come. But growth in 1999 was actually positive, inflation ended the year below 10%, capital outflows and the exchange rate stabilized and foreign direct investment rose to new record levels.
- Mexico's recent promotion to investment grade has put the seal on an impressive year and truly an impressive decade. We applauded when strong policies restored growth and stability after the crisis of 1995. And we applaud again, today, Mexico's growth rate of 3.6% last year and the expectation of faster growth, and lower inflation, in the year to come.
- With effective policies, recessions in Chile, Argentina and elsewhere have given way to renewed growth. Private sector analysts expect the region to grow more than 3 percent this year, and inflation to move a little below last year's 8 percent. Perhaps most encouraging, electorates have once again opted to continue with the path of reform. In the past 6 months alone, the electorates of Argentina, Chile and Uruguay have returned governments committed to market reforms and market-led growth.
- In Central America and the Caribbean, the picture is perhaps more than usually diverse. El Salvador's impressive economic achievements have continued to impress investors and seen it retain its investment grade. While Honduras, Nicaragua and Guyana are working with the IFIs in designing strong programs that will realize the benefits of HIPC. And Haiti remains preoccupied with the creation of the most basic institutions of a functioning democracy.

- The countries of the Andean region continue to underscore President Clinton's caution that weak states, in today's world, may present as grave a threat as strong states have done in the past. The resolution of political uncertainties will be especially important in Venezuela in the months ahead. And issues of governance issues will certainly continue to loom large in Colombia, even as the government's strong adjustment program helps to build confidence that Colombia's enviable postwar economic record will remain intact. Ecuador's challenges remain immense. But the government has taken bold steps to restore stability and growth, and is well on its way to earning the support of the International Financial Institutions.

II. The Agenda for a New Decade

The dominant challenge of our region today must be the promotion of a prosperity that can be inclusive and can be sustained. A decade of reforms has not yet made this vision a reality. But in Latin America and around the world, the reform experience has taught a number of lessons about what the core ingredients for such a prosperity must be.

First, growth is both necessary and a long way toward being sufficient for more inclusive prosperity.

We have seen here in Latin America what we have seen in every region of the world at every time in history: that growth is the most potent weapon for combating poverty ever invented.

- The absence of high and hyper-inflation has helped the poor more than any other group in the past decade, with poverty levels falling in most of Latin America and the share of households in poverty falling from more than 40 percent.

- Growth and improved budgetary choices have also permitted social spending to rise, indeed nearly to double in countries such as Bolivia, Colombia, and Peru. And they have helped to boost key social indicators. Infant mortality in Latin America fell by roughly 25 percent in the 1990s, and life expectancy rose by more than 2 years.

Never forget that the preeminent reason to combat financial crises and instability is to safeguard improvements such as these. For if growth is the greatest force for human development, then instability and reversals in growth are its greatest foes. It has been estimated that a single year of recession in this region in the 1990s has been enough to wipe out anything from 50 to 100 percent of the reduction in poverty achieved in 4 or 5 years of growth.

Second, market-oriented policies and economic openness work best

Globally the message has been repeated again and again in recent years: that successful national economic development depends above all on the promotion of open markets and the institutions and policies that are needed for markets to function well.

- That means support for openness and integration. We must work to deepen and accelerate the regional integration that we have achieved. And the United States is committed to doing its part. That is why we are committed to passing legislation for an enhanced Caribbean Basin

Initiative this year. And that is why we remain committed to building a Free Trade Area of the Americas. It has perhaps gone with too little notice that the negotiations for the FTAA are continuing. The machine is not yet up and running. But gradually the nuts and bolts are falling into place.

- And it means developing the intangible infrastructure for markets: strong and consistent norms of transparency and integrity in both the public and private sector; respect for contracts and effective means of enforcing them; continued efforts to root out corruption; and a strong and enduring rule of law that is not merely even-handed but seen to be so.

Third, there is much for public policy to do to promote a more inclusive economic success

President Clinton has spoken often about the need to broaden the circle of economic opportunity to include all of our citizens. If there was ever any doubt that inequality of opportunity and resources would hold the Latin American economy back – that doubt has surely vanished today. Policy-makers across the region are realizing that issues that were once considered social questions are of increasingly direct macro-economic importance.

- At a time when the market will value more of our contributions by the knowledge we able to apply than by the muscle we are able to bring to bear, it cannot be a recipe for regional success that only slightly more than half of the children of secondary school age in Latin America and the Caribbean were enrolled in school in 1997. A recent IDB study concluded that Latin American education had "gone backward" in the 1990s, with the workforce averaging two years less schooling than other countries of similar national incomes.

- At a time when investors sometimes seem to have eyes only for the Internet and the market opportunities that it presents, it cannot escape their attention that barely 4 percent of Latin America's population has access to a PC. Or that there are only 11 phones for every 100 people in Latin America – compared to nearly 70 in the United States.

- And above all, at a time when we are emphasizing the creation of economic opportunities, we must remember that opportunities mean very little to people who lack the basic tools to make use of them. We must never forget that one third of the people in Latin America live on less than $2 a day. And we in the US must never forget that male life expectancy in Washington, DC is today lower than it is in Mongolia and Belarus – and that right here in Louisiana, fully one third of children under 18 live below the official poverty line.

That is why President Clinton has always placed such emphasis on investments in people and on policies to promote economic inclusion. And that is why so many of the leaders of Latin America – notably Presidents Zedillo and Cardoso – have rightly chosen, as we all of us did at the Santiago Summit of the Americas, to make education and social inclusion such an important part of their mission in government.

III. The Agenda for the IDB

Here and around the world the question is being posed: what are the distinct and distinctive roles of the various IFIs in a world economy that is dominated by private sector capital flows? In recent statements in London last December and last week at the Council on Foreign Relations in New York I have laid out our response to this question in a broad agenda of reforms for the IMF and the multilateral development banks. And as I said in New York, there is a crucial role in this evolving framework for strong and effective regional development banks (RDBs).

Right from the beginning, the Clinton Administration's approach to the IDB has been framed by the recognition that RDBs are as important to the new world order as the regional security organizations were to the old one. Just as the regional security organizations were directed to the challenge of combating communism, so the RDBs are directed to the central challenge of shared prosperity and enlarging the circle of prospering democracies.

The IDB has amply justified our commitment to this institution in the past seven years in its dogged support for market-led growth and prosperity across the region. At the same time, as President Iglesias and others recognize – and as I have said many times of the other IFIs – to say that the IDB is indispensable is not to say we can be satisfied with the IDB as it now is.

The Eighth Capital Replenishment that we celebrated in Guadalajara has served the IDB well. But the fact that we will not be reviewing the quantity of the IDB's resources in the near future should not deter us from a consideration of how those resources are being deployed.

Specifically, over the next year, we believe there should be a full review of the IDB's lending policies and financial instruments – leading to concrete agreements on new procedures in the following five areas:

First, lending for core social priorities

IDB lending in 1999 was broadly in line with IDB 8 priorities to allocate 40 percent of the total volume and 50 percent of the number of IDB operations to poverty reduction and social equity. We can and should debate whether this share might be increased in the future. But let us all agree now on the need for new procedures to ensure that this lending is as effective as possible. The IDB's Institutional Strategy is a welcome start on this kind of approach. Today we call for this to find clear expression, in the development of a performance matrix to guide IDB decision making that links lending to a small number of measurable performance benchmarks that will be rigorously adhered to.

As part of increasing the IDB's effectiveness in this area we must also consider concrete ways for the IDB to enhance popular participation. This is perhaps nowhere more important than in Latin America when so much of the population is left on the margins of economic life. I welcome the IDB's efforts to enhance its dialogue with the labor organizations of the hemisphere represented in the Inter-American Regional Labor Organization (ORIT). We believe that the IDB should work to expand opportunities for these and other new forms of dialogue, particularly with respect to rural and other groups that too often are without a voice.

Second, lending that supports the private sector

Given the rapid growth in financial techniques and instruments, we ought to be able to find better ways to insure countries against the shocks that so often afflict this region: be they dramatic swings in commodity prices, natural disasters, or sudden shifts in global market conditions. The advent of more sophisticated ways of parceling out and hedging risk has transformed the basic menu of offerings of the private financial institutions. The IDB and other RDBs should be able to use their unique franchise to innovate in this area as well – with new lending products that are tailored to the needs and situation of the IDB's diverse clientele.

Third, improved capacity for emergency response.

We must recognize the real danger that official development lending turns out to be pro- rather than counter-cyclical – with too much lending when it is not needed, and too little lending when it is needed most. This points up a need for greater emphasis on building reserves and the reversal of funding when times are good. And it underscores the importance of maintaining a strong capacity to respond quickly and substantially to crises when they occur.

We categorically reject the view, embraced by some, that crisis response is not development lending. Given the degree of social distress that these moments bring, and given the opportunities that they present for achieving, in a matter of months, structural reforms that might otherwise have taken many years – we believe that these are moments when the development banks can truly show their worth. The IDB has borne this out in the past year in its emergency lending programs for Brazil, Argentina, Colombia and others. It must have the capacity to respond even more rapidly and effectively to such emergencies in the future. To that end, and assuming we husband our resources in the good times, we believe that we should be prepared at times of crisis to waive traditional limits on the share of lending that can be fast-disbursing.

Fourth, pricing.

In line with the reforms that we have supported in other official financial institutions, we also believe that this review of IDB lending and procedures should consider new pricing policies that will more accurately reflect the access that beneficiaries have to a range of financing options, including from private providers competing for the business. While respecting the December 1998 FSO agreement, we believe that marginally higher IDB spreads in cases where countries have substantial access to private markets would be appropriate. And a strong case can surely be made for the shared regional benefits of making available additional IDB resources for regional public goods and technical assistance.

Fifth, agreement on funding full IDB participation in the enhanced HIPC

This is the most urgent and morally important issue on the IDB's agenda today. Let me express my full support for the Committee of the Board of Governors' actions yesterday, committing the Bank and its shareholders to ensuring full financing for the Bank's participation in the enhanced HIPC initiative – and creating a working group to establish an agreement on how to achieve this, that will be reported by the end of June. I also want to express my appreciation for the work done by the IDB Executive Board in proposing elements that can contribute to such an agreement.

What is most crucial now is that the working group moves forward quickly, so that Bolivia and others who have made such strides to reform in recent years can obtain the additional support that they so desperately need. The United States is working with Congress to make a significant contribution to this effort. But we all need to work together for HIPC to move forward. We must each acknowledge that a successful package from the working group will require a balanced mix of internal Bank resources, new regional contributions and new non-borrower contributions.

IV. Concluding Remarks

Let me conclude where I began. The 1990s were a decade that reforms continued – often against the odds. Here in New Orleans, we must celebrate that fact. And the United States, especially, must reaffirm our commitment to the more integrated and economically successful continent of the Americas in which we have such an enormous stake.

As we look to this new century it is perhaps more crucial than ever that we look outward as a nation and work to promote the more global prosperity upon which our own prosperity will increasingly depend. 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." And nowhere are these real and potential benefits more visible than in Latin America.

From that perspective, the greatest threats to our economic security may lie within our country – in the form of economic insecurity that leads some to reject global integration. As we were reminded last year in Seattle and most recently in debates in this country over granting Normal Trade Relations to China, globalization is and must increasingly be much more than a narrow economic challenge. Global integration simply will not work if it means local disintegration, and if our people do not believe that integration works for them.

For all of these reasons, international institutions that can help to promote more rapid and inclusive growth within countries – and a more stable flow of capital between them – may be the most effective, and cost-effective investment that we can make in forward defense of America's core interests. And among the IFIs the IDB continues to make a crucial contribution to these goals. That is why the Clinton Administration has been so committed to the unique work of the IDB – and why we hope and trust that future Administrations will maintain our support for this great institution in the years to come. Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
August 1, 1995

Waco Update

Attached is an update based on testimony in today's Waco hearings.

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RR-501
5:35pm EST

Safety

Assertion: If the safety of the persons in the compound and the agents mattered to ATF, they would not have conducted a raid.

- ATF's raid plan was designed to separate the men in the compound from the weapons in order to prevent violence. One principal aim of the raid was to provide for the safety of agents and innocents by using, surprise, speed, and superior force (by virtue of separating them from the arms) to take quick control of the premises.
- ATF planners chose not to conduct a siege, in part, because of the possibility of mass suicide.
- The planners chose not to conduct a pre-dawn raid, in part, because of concerns about safety. Planners feared that executing a search warrant under the cover of darkness would make it difficult to distinguish between innocent persons and residents who were prepared to resist with lethal force.
- The Treasury review reports that when presented with the raid plan ATF management raised concerns about measures being taken to protect ATF agents and the women and children in the compound. Director Higgins directed that particular care be taken with the flashbangs.
- ATF Agents wore vests to protect vital organs against bullets and helmets to protect against head wounds.
- Nevertheless, the Treasury review concluded that ATF selected a raid before fully considering other options. (Treasury report, p. 134-142) Moreover, the raid commanders failed to realize the unacceptable risk of proceeding without surprise. (Treasury report, p. 170-173).

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FACT SHEET:

ATF, the "Drug Nexus," and Military Assistance

Fact: Neither the law nor the regulations of the military establish a formal standard for a drug nexus. Once ATF investigators gathered information about a possible drug nexus at the compound, they presented this information to the U.S. military and the Texas National Guard. Representatives from these groups evaluated the information and found that it was sufficient to warrant assistance on a nonreimbursable basis.

Fact: ATF did not lie to or mislead the military about the possible existence of a methamphetamine lab on the compound.

- One of the military officials who testified at these hearings stated that ATF did not lie.
- Wade Ishimoto, a former Delta Force intelligence officer and one of the tactical experts consulted by the Treasury review team testified that ATF did not lie about its evidence of a possible meth lab on the compound.
- The documentary evidence provided to the committees proves that ATF accurately presented the information it gathered.

Fact: Military documentation proves ATF did not lie to or mislead the military.

- ATF's written request for military assistance dated 1/22/93 referred only to a "possible meth lab" with weapons.
- The Department of Defense's (DOD) own internal review sent to the Commander, Forces Command, Joint Task Force Six, dated August 18, 1993, shows that DOD knew from ATF that 1989 was the last year for which hard evidence of meth production at the compound existed.
- "Hot spots" discovered by military overflights in January and February 1993 confirmed the possibility of a meth lab.

Fact: The DEA documentation proves that ATF did not lie to or mislead the military.

- DEA's coordinator for Operation Alliance attended the February 2, 1993 meeting of Operation Alliance which evaluated the information provided by ATF on a drug nexus, and which approved a request for military assistance based on that information.

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- The DEA coordinator told the Treasury review that he does not believe that ATF lied to or mislead the military.

- ATF notified DEA in advance of the February 28 action. Three DEA agents, who were prepared to assist ATF, were present at the ATF Command Center on February 28, 1993.

- DEA states that DEA and ATF have done joint raids on many labs and that ATF personnel know the precautions that need to be taken.

In addition, ATF possessed the following documentation of a drug nexus.

- Information from Marc Breault, an ex-cult member, concerning the existence of a meth lab and conversations with Koresh about selling drugs to raise money.

  -- A meth lab existed on the compound when Koresh took over the property;

  -- The meth lab was never turned over to the Sheriff's office;

  -- Koresh talked about drug selling as a possible means of raising money.

- Information from the Bunds family, ex-cult members, who thought that Koresh's erratic behavior might indicate that he was utilizing the meth lab for himself.

- Criminal history records obtained in December 1992 by ATF, which disclosed a record of drug use, arrests, and convictions for members of the compound.

  -- Several arrests for drug offenses;

  -- Two convictions for possession of a controlled substance, including a conviction in January 1992 for methamphetamine by Marshal Keith Butler, a machinist who frequented the compound, and who was paroled to McLennan County, Texas in 1992.

- Conversation between ATF undercover agent and Koresh at the compound on January 28, 1993, in which Koresh stated the compound would be a great place for the methamphetamine lab because it was in the open and the wind blew all the time so no one could smell a lab.

- Delivery of precursor chemicals to the compound.

August 1, 1995

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TEXT AS PREPARED FOR DELIVERY
March 30, 2000

Under Secretary (Enforcement) James E. Johnson, Subcommittee on Treasury and General Government Committee on Appropriations

Mr. Chairman, Senator Dorgan, and Members of the Subcommittee, I am pleased to be here today on behalf of Secretary Summers to introduce the fiscal year 2001 budget request for the Treasury Department's law enforcement bureaus and offices. Testifying with me today are the heads of each Treasury law enforcement bureau: Raymond W. Kelly, Commissioner of the United States Customs Service (USCS); Brian L. Stafford, Director of the United States Secret Service (USSS); Bradley A. Buckles, Director of the Bureau of Alcohol, Tobacco and Firearms (ATF); W. Ralph Basham, Director of the Federal Law Enforcement Training Center (FLETC); and William F. Baity, Deputy Director of the Financial Crimes Enforcement Network (FinCEN). FinCEN Director James Sloan suffered a loss in his family and will not be able to join us today.

At the outset of my testimony, I want to thank the Members of this Subcommittee for their strong and continuing support for Treasury law enforcement. I welcome this opportunity to discuss with you the Treasury Department's accomplishments and plans in the important law enforcement mission areas for which we are responsible. I would like to focus on what we regard as the most significant challenges we are facing and how Treasury law enforcement is responding to them, covering our activities over the last year, our plans for the remainder of the current fiscal year, and our budget proposals for fiscal year 2001.

While we continue to face fiscal challenges, the fiscal year 2000 appropriation provides our Treasury bureaus with strong support for carrying forward increasingly complex and challenging missions. We appreciate the support you showed for Treasury's enforcement programs in the appropriations for FY 2000. I am pleased to report that the President's fiscal year 2001 budget proposes a $4.2 billion program level for Treasury enforcement. If enacted, this budget will provide the ATF with an overall increase of more than 500 full-time equivalent agents, inspectors and other staff, and will substantially enhance our firearms enforcement efforts. This budget will provide the U.S. Secret Service with 193 additional full-time equivalent agents over the fiscal year 2000 appropriated level to enable the United States Secret Service to carry out its dual mission of protection and investigation. The President's budget also provides the U.S. Customs Service with 273 additional full-time equivalent positions, including 120 for agents to conduct drug smuggling and money laundering investigations. Overall, the President's budget proposal would add roughly 1,200 full-time equivalent positions to Treasury enforcement

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above the fiscal year 2000 total enacted level. It represents the largest increase in Treasury law enforcement staffing in over a decade.

DEPARTMENTAL OVERSIGHT

Funding is not the only element of strong law enforcement. It is also important that law enforcement agencies have clear policies and a means for setting priorities. We at the Treasury Department seek to provide support, oversight, and policy guidance to enhance the performance of our enforcement bureaus and to provide strong leadership in the enforcement community.

Over the past year, we have continued to focus on accomplishing the Department's enforcement goals and our bureaus' individual goals. We have relied on the expertise of our professional staff and also on the talent and experience of bureau personnel to work on challenging issues.

Hiring: Our need to recruit the best qualified and diverse workforce will gain even greater salience if the proposed budget is enacted. We have undertaken two key initiatives in this area.

(1) Schedule B - Late last year, in response to our appeal, the Office of Personnel Management (OPM) granted the ATF and the Customs Service Schedule B excepted hiring authority. This authority is somewhat similar to that currently used by the Secret Service, the Federal Bureau of Investigation, and the Drug Enforcement Administration for criminal investigator recruitment and selection. Some of the benefits of this authority are greater flexibility in targeting recruitment to meet skill requirements and diversity goals, the capability to focus on the large number of intangible skill sets and personal characteristics required, and the ability to find and hire quickly the best candidates for their jobs.

(2) Diversity conference - Last fall, the Office of Enforcement, joined by Management, discussed with each of the bureaus their recruiting and hiring practices, focusing on diversity. We learned that each of the bureaus' recruitment programs had many commendable aspects, but concluded that all could benefit from hearing about the experiences of the other bureaus. Since that time, we have brought together the Equal Employment Opportunity managers from across the bureaus for a series of meetings which will culminate in a diversity conference, to be held next month, which will focus on best practices to recruit and hire a diverse workforce. The conference will also have a training module focusing on best practices for ensuring that, once recruited, minority employees have fair opportunities to advance through the organization over the course of their careers.

Retention: Retention of employees who have years of experience and in whom we have invested long hours of training is critical. In that regard, the Department has made progress toward meeting the challenges of improving our capacity to develop and retain high-caliber employees. Specifically, we have worked to address workforce retention and workload balancing issues within the Secret Service. My office established an Interagency Working Group on U.S. Secret Service Workforce Retention and Workload Balancing, which included representatives from Enforcement, Treasury's Office of Management, OMB, and the Secret Service. The analysis revealed that Secret Service agents have experienced an extreme increase in the amount of travel and working hours in the last few years due to the increase in the number of protectees and the enhanced level of protection necessary. In fiscal year 2001, the Secret Service will experience a further workload increase when the change of administrations occurs. To begin to alleviate these problems, Treasury's fiscal year 2001 budget proposal includes a significant increase in staffing for the Secret Service.

Senior Executive Service (SES) allocations: As the Subcommittee is aware, Treasury bureaus have had a critical need for SES positions. Last month, as a result of decisions within the OPM, we allocated 20 additional SES positions to our enforcement bureaus. The lion's share of those positions went to the Customs Service, which, as you know, still faces significant challenges in this area. This is an issue that the Department will continue to work with our bureaus to address.

Demonstration pay project: In January, ATF implemented its pay demonstration pilot for scientific and technical positions. The demonstration project -- developed by a team comprised of personnel from the Office of Enforcement, the Office of Management and the ATF -- emphasizes flexibility in approaches to recruitment, and establishes a pay-for-performance system designed to provide incentives to compete with state and local government and the private sector. To date, 223 out of a possible 260 ATF employees have chosen to participate in the program, and the period for choosing to participate has not yet closed. We thank the Subcommittee for this authority as we look forward to making this capacity permanent.

Retirement: Schedule B authority, increasing SES allocations, and the pay demonstration project are particularly critical in light of the Department's report on retirement and the proposed budget. In response to Congressional direction, the Department, through a contract with the Office of Personnel Management, analyzed the large numbers of criminal investigator retirements that have occurred and will likely continue to occur in the next several fiscal years. Submitted to Congress last fall, the report included the findings and the implications for workforce planning, as well as related information about the recruiting market and selection problems that will affect Treasury's ability to hire criminal investigators and maintain staffing levels. Specifically, the report included an analysis of retirement and attrition patterns from the last five years, and the age and years of service of Treasury's criminal investigators. Based on this analysis, it was estimated that the Department would need approximately 2,662 new hires for its criminal investigator workforce between fiscal years 1998 and 2003 in order to maintain Treasury's 1998 fiscal year-end strength of 10,261 criminal investigators. This means that, before we can take advantage of the increases contemplated in the President's budget, we must hire an average of approximately 600 additional investigators each year for fiscal years 1999 through 2003.

Training: Another aspect of our goal to recruit and retain a high quality workforce is assuring that Treasury law enforcement officers receive the highest quality of training available. The Federal Law Enforcement Training Center (FLETC) is key to this goal. The expansion in recent years in the number of employees hired by the 73 law enforcement agencies that participate in FLETC has stressed FLETC's ability to meet all the requests for training. Although FLETC continues to be able to provide all the basic training needed, currently by using a temporary facility in Charleston, South Carolina, increases in bureau hiring require coordinated increases in funding for FLETC.

To address some of the strain from increased demand for training, we have also been exploring ways to use the latest technology to provide alternative means of delivering training courses. Recognizing that the FLETC facilities cannot accommodate all of the requests for training that are likely to arise in the future, we are searching for ways to use the Internet and video conferencing to provide needed training.

Likewise, the need for advanced training to keep law enforcement officers abreast of the latest trends in fighting crime is critical. We have been working closely with FLETC to explore ways to enhance training to address high-tech crime. One example of this approach is Computer Investigative Specialist (CIS) 2000 training. This course, which includes agents from the Secret Service, Customs, the Internal Revenue Service Criminal Investigations Division, and ATF, uses state-of-the-art training and equipment to teach agents how to deal with the latest computer and encryption technology that they may encounter in conducting an investigation. The CIS 2000 agents have achieved many notable successes in their investigations of counterfeiting, money laundering and various types of fraud as a result of this course.

Through our Implementation Working Group, the Office of Enforcement also continues to monitor FLETC's progress in implementing organizational assessments of FLETC that my predecessor had done. Great strides have been made in addressing some of the problems that had developed at FLETC, and we hope to be able to conclude the Implementation Working Group's work later this year. The next meeting of the Committee will be held in Artesia, New Mexico this spring.

Our budget request for fiscal year 2001 contains important initiatives for the Federal Law Enforcement Training Center (FLETC). We are seeking $6,969,000 for FLETC's mandatory workload. This funding will be used to address entry level training for additional agents and inspectors for ATF and additional agents for the Secret Service. This is the first major hiring initiative for Treasury law enforcement bureaus in many years. FLETC is a key component of Treasury's effort to meet this build-up. Funding also is included for new construction and renovation of older existing structures at FLETC to continue the planned upgrade of facilities crucial to the training of the vast majority of the federal government's law enforcement personnel.

<u>Office of Professional Responsibility</u>: One of the key functions of the Office of the Under Secretary (Enforcement), is to provide oversight to the Treasury law enforcement bureaus. Over the past few years, our efforts have been enhanced owing to the establishment of the Office of Professional Responsibility (OPR), which Congress directed. OPR completed a number of significant projects in 1999 and 2000, including the reviews of Customs' Office of Internal Affairs, ICDE funding needs, operations at ATF's Tracing Center, and the aforementioned Secret Service workforce review. A number of significant reviews are also underway, such as a prioritization of international training conducted by the bureaus, overseeing a year-long gathering of statistics on encounters with law enforcement to ensure ethnic and minority groups are not being unfairly targeted, and a review of ATF's role in the National Instant Check System (NICS).

MONEY LAUNDERING AND FINANCIAL CRIMES

Preventing abuse of our financial institutions to conceal tax evasion and the movement of money generated by criminal activities is a high priority. It is a problem that cuts across a broad spectrum of criminal activities, from violent crimes such as narcotics trafficking to white-collar crimes such as credit card fraud. This is a matter of great concern for the Treasury Department in our role as guardian of the integrity of the U.S. financial system and its financial institutions.

Current Activities and Priorities for Fiscal Year 2001

Treasury's law enforcement bureaus and offices play a key role in our fight against financial crime. The Customs Service, the Secret Service, IRS-CID, and ATF all investigate money laundering stemming from the specified unlawful activities within their jurisdictions. Additionally, the Financial Crimes Enforcement Network (FinCEN) is charged with administering the Bank Secrecy Act, which prescribes transaction reporting and record-keeping requirements for financial institutions designed to insulate those institutions from money laundering, and to provide a paper trail for investigators. Just last August, FinCEN issued a final rule requiring all money services businesses to register with Treasury. FinCEN recently issued the final rule requiring a subset of these businesses -- money remitters and money order and traveler's check issuers, sellers and redeemers -- to file suspicious activity reports. FinCEN serves as the central point for collection and analysis of Bank Secrecy Act data and provides case support to law enforcement investigations.

Over the last year we have undertaken or strengthened several initiatives aimed at addressing systemic vulnerabilities in our financial system.

National Money Laundering Strategy: In September 1999, in consultation with the Department of Justice, the Department of State, the federal financial supervisory agencies, and state and local law enforcement, Treasury published the first National Money Laundering Strategy. The Strategy for the first time articulates a coherent, broad-based attack against the pernicious effects of criminals hiding the proceeds of their crimes.

Since the 1999 Strategy was released, a tremendous amount of progress has been made toward implementing it. Over a dozen interagency groups were formed to ensure progress on priority action items. Less than six months after the release of the 1999 Strategy, Treasury and Justice in early March released the 2000 Strategy. The 2000 Strategy announced a number of high intensity financial crime areas (HIFCAs), and described the results of a number of policy reviews. Substantial progress occurred in a number of areas, including a review of whether formal guidance should be given to financial institutions about how to meet their obligations to report suspicious transactions, the aforementioned issuance of suspicious activity reporting rules for so-called money services businesses, a review of rules and practices currently in place to protect the privacy of U.S. persons by limiting access and controlling the use of information collected pursuant to the Bank Secrecy Act, developing a formal process to administer a grant program to support state and local efforts to combat money laundering, and encouraging countries around the world to join in the global fight against this problem.

Particular progress was made this year in the multi-faceted attack on the Black Market Peso Exchange (BMPE) system of money laundering. The Treasury-led BMPE working group helped to produce improvements in investigative techniques used by law enforcement, awareness among the business community, and a multilateral working group of experts from affected governments throughout the hemisphere. In addition, Treasury continued its prominent role in the Financial Action Task Force (FATF), which is defining "non-cooperative jurisdictions" in order to identify and ultimately orchestrate counter-measures against them. The Department also issued a formal advisory encouraging the Government of Antigua and Barbuda to take constructive steps to address serious vulnerabilities in its system of anti-money laundering control. In the future, we expect to be in a position to meet the statutory deadline of February 1 for the annual strategy.

Identity Theft Summit: Each year American businesses and citizens lose more that $3 billion to credit card fraud. One of the key means by which this fraud occurs is identity theft. On May 4, 1999, President Clinton announced that the Treasury Department would convene a national summit on the subject of identity theft and work with the private sector to help prevent the occurrence of this crime. This summit is part of a larger identity theft initiative that includes case referral, a public education partnership, and sentencing enhancements, which will implement the new legislation that provides the U.S. Secret Service with authority to investigate identity theft violations. The summit, which took place on March 15 and 16, 2000, engaged 250 senior executives from the public and private sectors in a substantive dialogue that we expect will lead to better communication and cooperation on identity theft crimes.

Financial Fraud: During 1999 the U.S. Secret Service made almost 4,500 arrests for financial crime offenses. The Secret Service also coordinated 28 task forces involving 54 law enforcement agencies throughout the United States. These task forces focused primarily on fraud schemes intended to victimize individuals, banks, credit card issuers, and other financial institutions.

In fiscal year 2001, preventing abuse of our financial system to facilitate criminal activities remains a high priority for Treasury enforcement agencies. Our budget request for fiscal year 2001 supports Treasury's role in implementing that strategy. We are emphasizing (i) technical assistance to financial institutions as well as law enforcement agencies; (ii) enhanced collection and analysis of data that can help us to identify and pinpoint financial crimes; (iii) interdiction of outbound currency; (iv) giving our bureaus the resources to allow them to undertake lengthy investigations of complex illegal transactions; (v) specialized training for our agents; and (vi) partnership grants to state and local governments to leverage the resources they can bring to bear on this problem.

FIREARMS VIOLENCE

Over the last two years, few events have so caught the attention of the American public, and indeed the worldwide audience, as the spate of senseless shootings in public places. In our schools, in our places of work, and on our streets, criminal violence and the easy availability of firearms to criminals have wrought havoc and caused Americans in all walks of life to feel unsafe. Over the last year, both the President and the Congress have responded to these concerns. Treasury, specifically the ATF, with the support of this Committee, has been at the center of this comprehensive response.

The most important development of the past year has been our work with the Department of Justice to provide support for burgeoning collaborative federal, state, and local intensive firearms crime investigation and prosecution plans throughout the country. Between 1993 and 1998, violent crime with firearms fell 37 percent and gun-related homicides declined 36 percent. Firearms prosecutions are increasing. Department of Justice information shows that in 1999 federal prosecutors brought 5,500 firearms cases in the federal courts, 700 more cases than in 1992. Looking ahead, our primary focus continues to be on building firearms enforcement capacity, and providing the tools that enable federal, state, and local law enforcement to use their resources in a strategic manner that will have the most impact on armed crime reduction.

Current Activities and Priorities for Fiscal Year 2001

Integrated Violence Reduction Strategy: Last fiscal year, the Treasury Department and the Justice Department were directed by the President to provide an integrated violence reduction strategy to further reduce gun violence. The joint Treasury-Justice strategy will be released soon. It will call for more enforcement resources to combat armed violence as requested of Congress in the Administration's fiscal year 2001 budget request and ATF's fiscal year 2001 appropriations request, in order to maximize the impact of current laws on the reduction of gun violence. The strategy will also highlight legislative proposals discussed by the President to further reduce youth violence and improve public safety. Enforcement resources requested will be used to support and enforce current statutory authorities.

The strategy proposes funding for 300 new agent positions, 200 inspector positions and 100 other personnel for ATF to support local intensive prosecution projects like Project Ceasefire in Boston and Project Exile in Richmond, as well as for the Youth Crime Gun Interdiction Initiative, regulatory, and gun show enforcement activities (discussed below). These local strategic projects encompass investigations of armed criminals and illegal traffickers, and inspections of firearms dealers that are the sources of firearms to criminals, as well as those illegally attempting to acquire or illegally possessing firearms.

Consistent with our budget request, the strategy will also call for an expanded effort to support state and local law enforcement agency capability to trace recovered firearms to determine their illegal sources and to speed up trace responses to state and local law enforcement agencies ($9.9 million), and to establish ballistics imaging capability to identify shooters and traffickers where the firearm itself is not recovered ($23.4 million). Our view is that all state and local enforcement agencies with a gun crime problem should have these capabilities, and be able to draw on ATF's information and analysis, expertise, and investigative experience. Expanded and shared information about the illegal gun market will enable more strategic use of federal, state, and local investigative and criminal justice resources.

Commerce in Firearms in the United States: Treasury strongly supports ATF's efforts to base its firearms inspection program on indicators of criminal access to firearms. In February, ATF released the first annual report on Commerce in Firearms in the United States, providing an array of information concerning the firearms industry and ATF's regulatory inspection program. The 2000 report informs Congress, law enforcement officials, and the public on the activities of ATF inspectors, and how ATF regulatory resources are focused in order to maximize their effectiveness in reducing firearms trafficking and abuse. The report shows the types of activities and inspection strategy for which we are requesting new inspectors and other personnel for ATF. A fair and focused inspection program will reduce the need for more costly criminal investigations and benefits public safety.

Youth Crime Gun Interdiction Initiative (YCGII): There is a continuing need to focus attention and resources specifically on reducing youth violence and preventing the illegal supply of firearms to juveniles and youth. A fundamental need is for investigators to find out how guns are illegally acquired by young people. In the past year, ATF and local police committed to establishing comprehensive crime gun tracing and youth gun violence reduction efforts with law enforcement agencies in eleven new cities, bringing the total number of cities participating in YCGII to 38 in its third year. In February 1999, Treasury and ATF issued the second year Youth Crime Gun Interdiction Initiative Trace Analysis report, analyzing over 76,000 crime gun traces from 27 cities. The report provides local law enforcement agencies with information about the number of firearms recovered in their jurisdictions, top crime guns in each city, and their geographic sources, in order to assist local law enforcement agencies with development of effective law enforcement strategies against youth violence. ATF also released the YCGII Performance Report, a survey of over 640 trafficking investigations nationwide involving juveniles and youth engaged in gun crime, demonstrating ATF's enforcement efforts to stop youth and juvenile access to guns through straw purchasers and other illegal channels. We endorse ATF's plan to expand YCGII to 75 cities, and propose to add 12 new cities in fiscal year 2001 to work toward this goal by bringing the fiscal year 2001 participating cities to 50.

Gun Show Report: In February 1999, Treasury in coordination with the Department of Justice, released a report on gun shows, Gun Shows: Brady Checks and Crime Gun Traces. The report was prepared in response to a directive from the President that the Secretary of the Treasury and the Attorney General provide him with recommendations to address the gun show loophole, that is, the sale or exchange of firearms at gun shows without background checks or tracing records for those acquiring the firearm. The report led to legislation proposing that all transactions at gun shows include background checks and tracing records to prevent access to guns by prohibited persons and to allow law enforcement officials to trace firearms when they are recovered by law enforcement officials. Both licensed and unlicensed gun sellers at gun shows are sources of guns to criminals and other prohibited persons; where there is evidence of criminal activity, enforcement attention is required.

COUNTER-NARCOTICS

Reducing the supply of dangerous drugs entering the United States continues to be another of our high priorities. It is also our most difficult challenge. We are confronted by well-financed criminal organizations that adapt quickly to every advance we make in the detection of illegal drugs. Moreover, interdiction is only one piece of a comprehensive drug control strategy that includes eradication of drug production abroad, sanctions against drug kingpins, investigation and disruption of trafficking activities within the United States, treatment of drug users, and, as mentioned above, combating money launderers.

Current Activities and Priorities for Fiscal Year 2001

Border Coordination Initiative – We continue to work to strengthen our coordination with other border enforcement agencies to assure that taxpayers get the most effective use of federal resources available for drug interdiction. In September 1998, Treasury and Justice initiated the Border Coordination Initiative (BCI), an innovative system for controlling the Southwest Border. BCI is a strategic plan for Customs and the INS to maintain a seamless, comprehensive, integrated border management system that increases interdiction of illegal drugs, illegal aliens, and other contraband while simultaneously facilitating legal migration and trade. Customs and the INS have set new standards for innovation, interagency cooperation, and operational effectiveness, with locally developed innovations leading to improved coordination and more efficient border operations. As a result of BCI, more than 120 tons of cocaine, marijuana, and heroin were seized by Customs and the INS along the southwest border in 1999 - an increase of more than 20% over the previous year.

For fiscal year 2001, the budget proposes several important initiatives to strengthen the enforcement and interdiction capabilities of the U.S. Customs Service, our main player in the counter-narcotics fight. Commissioner Kelly can address these programs in greater detail, but summarized briefly they include:

- a $25 million request and 107 FTEs to aid Customs' investigations into the criminal organizations that smuggle narcotics into our country and distribute them in our communities;

- a $10 million request to enhance Customs' ability to detect illegal outbound currency movements; and

- a request of approximately $20 million in enforcement infrastructure improvements, including a P-3 FLIR upgrade, aircraft flight safety enhancements, surveillance equipment of helicopters, and an upgrade of the air interdiction center radar.

Together, these initiatives would help Customs improve on record-setting seizure statistics, while allowing it to better respond to the various smuggling routes and methods employed by narcotics traffickers.

Intelligence Architecture Review: Enforcement represented the Department in the inter-agency intelligence architecture review. The review, which also involved ONDCP, the Justice Department, CIA, and other agencies, led to a report, released last month, that contained a series of important action items to improve intelligence collection, dissemination, and use.

Narcotics Kingpin Act -- On December 3, the President signed the Intelligence Authorization Act for fiscal year 2000, which contains the Foreign Narcotics Kingpin Designation Act (the Act). The Act establishes a global sanctions program targeting significant foreign narcotics traffickers and their organizations modeled along the lines of the President's IEEPA-based program targeting Colombian narcotics cartels. The Act requires the Office of Foreign Assets Control (OFAC) to identify significant foreign narcotics traffickers and closely associated entities and individuals throughout the world and impose financial and trade prohibitions, as well as asset blocking, against them.

As a result of the significant workload increase driven by OFAC's responsibilities under the Act, the Department has included a request for $2.1 million and 20 FTE in the fiscal year 2000 supplemental request submitted to Congress in February. This would provide resources for OFAC to implement a global sanctions program targeting significant foreign narcotics traffickers and their organizations, as mandated by the Act. In addition, the fiscal year 2001 budget includes a request for $2.9 million and 11 FTE for OFAC to improve information gathering capabilities with respect to terrorist funding and narcotics trafficking and raise the quality of service to the public in the performance of OFAC's licensing function. OFAC currently has on-site staff gathering specialized information in Bogota, Colombia, on drug traffickers. Similar information gathering capability is needed in Dubai, United Arab Emirates to investigate terrorist funding, and in Panama and Bangkok to investigate drug traffickers. Sanctions programs are administered largely by licensing and the licensing function is OFAC's primary contact point with the public.

TRADE ENFORCEMENT AND FACILITATION

The United States is the world's largest exporting and importing country, and the volume of both exports and imports is growing rapidly. Over the five year period 1994 to 1999, the dollar value of exports increased by over a third (about 36 percent). During the same period the dollar value of imports increased by more than half (about 51 percent). These increases translate rather directly into increased workload for the Customs Service.

Our trade with other nations is vital to our economic strength and our standard of living, and we want to do everything we can to assure that the movement of trade across our borders is as frictionless as possible. At the same time, however, we recognize our responsibility to assure Congress and the American public that laws enacted to protect public health and safety, as well as other interests, are being effectively enforced at the border.

Current Activities and Priorities for Fiscal Year 2001

Improved Performance Measurement and Targeting of Violations: The Customs Service has continued to improve the accuracy and specificity of its compliance measurement system. In 1999 Customs submitted its fourth annual report to Congress on the results of compliance measurement. Compliance measurement is not only a tool for targeting Customs' enforcement activities. It also enables us to account to the Congress and the American people on how effectively Customs' trade enforcement resources are being used.

By illuminating where the problems are, compliance measurement also improves Customs' ability to implement a national risk management program that allows more efficient use of resources and more effective detection of violations.

Automation -- Customs' struggle to modernize its automated commercial system is well known to this Subcommittee, and is a problem of a kind that is not unique to Customs. We believe that we have made substantial progress in the last year in responding to problems identified by the General Accounting Office in the development of Customs' new Automated Commercial Environment (ACE).

As we work to develop a new automated commercial system, we are paying close attention to the reliability of the current system, the Automated Commercial System (ACS). The ACS is Customs' current mechanism for allowing importers, carriers, and others to transmit required information electronically, and enabling Customs to process and store the information electronically. ACS greatly accelerates transactions between the trade community and Customs, allows quicker release of goods, reduces the number of instances in which shipments of goods must be held by Customs owing to the absence of required paper documents, reduces filing errors, and improves law enforcement at the border by making possible electronic analysis of information for risk assessment purposes.

However, the ACS was created in the early 1980s, and was developed with programming language that is now obsolete. The program is proprietary to Customs and not supported by any software vendor. Moreover, at the time ACS was created, the urgency of moving as rapidly as possible from a paper environment to an automated environment resulted in inadequate documentation of ACS programming. Customs is effectively prevented from modernizing its business practices - including changes authorized by the Customs Modernization Act of 1993 - because of the difficulty and cost of modifying the obsolete and poorly-documented programming language on which ACS runs. Among the obsolescent features of ACS: (i) it is transaction based, that is, it treats the release of each shipment as a separate, taxable transaction, requiring the filing of an individual entry (tax return); and (ii) it is service-port oriented, requiring that entries be filed at the port at which goods are released from Customs custody.

A little over a year ago, the ACS began to experience periodic failures, or "brownouts". Although these did not last long, they were sufficient to remind us of the absolute necessity of maintaining a reliable automated commercial system for Customs. Consequently, we have given very high priority to upgrading the capacity and reliability of the ACS. We expect to spend up to $79 million in the current fiscal year, and we are requesting $123 million in fiscal year 2001, to assure that the American public can rely on its government for effective and efficient enforcement of our trade laws.

But we recognize that the trade community would like us to do more than simply assure the reliability of the current automated system. Each year the Customs Service must deal with the challenge of assuring that millions of freight containers and carriers entering the U.S. are in compliance with several hundred laws. In order for Customs to be effective at this job without becoming a serious impediment to commerce, it must become a more efficient collector and intelligent user of information.

This is difficult to do with the ACS because, as I noted, it effectively locks Customs into obsolete business practices. Because it is difficult to modify ACS's software, Customs cannot even implement procedural reforms that were authorized in the 1993 Customs Modernization Act, let alone new procedures that have become possible since then.

The Automated Commercial Environment, or ACE, is the proposed new Customs automated commercial system. It would operate on modern software and the programming would be fully documented to facilitate subsequent programming changes. ACE would allow periodic filing of consolidated entries to cover multiple transactions, and it would allow filing from any location, and not only the port at which the goods are entered. ACE also includes equipment enhancements to increase reliability and upgrade connectivity among Customs offices around the country and between Customs and the trade community. For example, ACE would be accessible to the trade through the Internet, while ACS is accessible only over dedicated lines.

In our budget for fiscal year 2001, we are requesting $210 million for ACE development. We estimate the cost of ACE development over the next four years to be around $1.25 billion. This is a relatively costly initiative. The recently completed cost-benefit analysis for conversion from ACS to ACE shows that modernizing Customs' trade data processing system will provide significant benefits to both the federal government and the trade community. We continue to believe that the proposed fee appropriately captures some of the benefits private businesses will receive from Customs modernization, and therefore, we have proposed to offset the costs of ACE over the next several years by creating a user fee to be collected from all parties that use Customs' automated systems. The amount collected from each user would be based on its volume of use.

We acknowledge that a similar user fee proposal last year was not well received. We have made some changes to our proposal this year that we believe go at least part of the way to meeting the objections of last year. For example, we are not asking, as we did last year, for the user fee to be collected a year in advance of appropriations for ACE.

The Administration is prepared, indeed eager, to work with Congress and the trade community to enact this proposal and begin work on ACE as soon as possible.

International Trade Data System: An interagency group working under Treasury leadership has finished the system design of a new international trade data system (ITDS), called for by the Vice President's National Program Re-invention project. The ITDS will offer a single electronic window for collecting all data required in connection with importing and exporting. When implemented, the new system will substantially improve the effectiveness and efficiency of government administration of laws that must be applied at the border, and will greatly reduce red tape imposed on importers, exporters, and carriers. Our budget proposal for fiscal year 2001 continues this program at the current level of $5.4 million.

G7 Data Harmonization: Completing harmonization of G7 customs data requirements, as outlined by the Lyon, Denver, and Birmingham G7 summit communiqués, will continue to be a priority in 2000. Current disparity in reporting requirements among G7 customs administrations imposes heavy reporting and record-keeping burdens on traders, and inhibits cooperation on law enforcement among governments.

Child Labor Enforcement: Treasury established a private sector advisory committee on child labor to help focus Customs' efforts to enforce laws prohibiting the importation of goods produced by forced labor. Customs' resources for enforcement efforts in the area of forced child labor have been increased. Customs had baseline resources of $3 million and 4 full-time equivalent positions (FTE) in fiscal year 1999, $5 million and 6 FTE in fiscal year 2000.

In fiscal year 2000, we are continuing to work aggressively to assure that goods produced by forced child labor are not allowed to enter the American market. Through the Child Labor Advisory Committee, Treasury and Customs are developing a program of business outreach aimed at fostering voluntary compliance with U.S. import restrictions on products of forced or indentured child labor through adoption of industry codes, best practices, and other methods. Customs will use additional budget resources provided by this Subcommittee to open a field office in South Asia dedicated to child labor enforcement, and will deploy additional investigative staff overseas as needed.

Additionally, Customs investigators have conducted a number of fact-finding missions to countries in Asia and Latin America where child labor is believed to be prevalent in a number of industries. Several visits have been made to South Asia, including India, Pakistan, Nepal, Bangladesh, and Thailand. With the fiscal year 1999 appropriation, additional agents were assigned to Bangkok, Hong Kong, and Montevideo. Additional agents will be assigned to the new South Asia field office that is being established in fiscal year 2000.

The fiscal year 2001 President's Budget requests an additional $5 million and 9 FTE, for a program total of $10 million and 15 FTE, to combat importation of goods made by forced child labor. The requested increase in fiscal year 2001 will enable us to attain even broader investigative coverage of overseas regions where child labor is believed to be endemic. These carefully placed investigative resources will enable Customs to acquire the detailed evidence that is required under U.S. law for Customs to detain merchandise manufactured with forced or indentured child labor.

The use of forced child labor to produce goods imported into the United States is not merely a matter of unfair commercial competition. Use of forced child labor perpetuates poverty and contributes to instability abroad by denying children the opportunity to pursue educational opportunities that could enable them to improve their standards of living. In fiscal year 2001, we shall remain committed to working with other governments, other U.S. government agencies, and with knowledgeable private sector groups, to assure that the U.S. market does not inadvertently become a means for supporting forced child labor.

EXPORT ENFORCEMENT

As events have demonstrated over the last few years, the United States continues to be targeted by those who seek to acquire our most advanced weapons and technology, often for purposes that directly or indirectly threaten the security of the American people. For years, the Customs Service has been an integral part of our response to that threat, by monitoring exports of goods from the U.S. to identify goods that embody sensitive technology.

Current Activities and Priorities for Fiscal Year 2001

Customs' ability to enforce effectively laws enacted by Congress to prevent the export of munitions and sensitive technology has been hampered by the difficulty of getting timely information about shipments leaving the country. Too often information is inadequate, inaccurate, or late. Two years ago the Treasury Department sponsored negotiations among the Customs Service, the Commerce Department, and representatives of exporters and carriers to work out the terms for use of a modern, electronic export reporting system. As a result of the agreement reached, use of the Automated Export System (AES) to file export declarations electronically increased from about two percent of export declarations filed in January of last year to around 25-30 percent in January of this year. Because the AES, unlike its predecessor system, is accessible over the Internet, we expect use of electronic export filing to continue to grow. Electronic filing is, of course, convenient for exporters and carriers, but the government also benefits. Having timely export information in an electronic format greatly increases Customs' ability to monitor for export violations. In fiscal year 2001 we shall continue to promote use of the AES, and to look for other ways to improve the quality and timeliness of export data.

COUNTER-TERRORISM AND PROTECTION

Current Activities and Priorities for Fiscal Year 2001

On May 22, 1998, the President signed Presidential Decision Directive 62. This Directive created a new and more systematic approach to fighting the terrorist threat and created criteria for identifying events of national significance that may be vulnerable to terrorist threats. At several events this year, including the World Energy Conference in Houston, Texas and the highly successful NATO Summit here in Washington, D.C., Treasury bureaus, including the Secret Service and ATF were involved in providing security, and the Customs Service provided air support. We estimate that approximately three or four events of this nature will occur each year.

Additionally, Treasury leads an interagency working group in conjunction with the Customs Service to address issues of weapons of mass destruction (WMD). The focus of the group during 1999 and 2000 has been to find ways to enhance our security and prevent WMD from entering the United States. Recent incidents, such as the arrest of several suspects at the end of 1999 in Washington and Vermont relating to the attempt to smuggle explosives into the United States, highlight the importance of heightened vigilance in this area.

ARSON

National Church Arson Task Force -- Treasury and Justice, along with others, continue to coordinate a nationwide federal, state and local law enforcement effort to identify and prosecute those who burn or damage our houses of worship, to help rebuild those institutions, to prevent additional fires, and to help heal community tensions resulting from attacks on our houses of worship. Due in part to increased vigilance, well-publicized arrests, and ongoing prevention efforts under the President's three-pronged strategy, church arsons continued on a downward trend during the past year.

In this statement I have been able to touch on only some of the important programs of Treasury's enforcement bureaus. Each bureau head will address our programs in greater detail. And, of course, I shall be pleased to respond in writing to any questions you want to direct to me about any of our programs.

In conclusion, Mr. Chairman, I would like to thank you, Senator Dorgan, and the Members of this Subcommittee for your outstanding support of Treasury's law enforcement programs over many years. Our law enforcement bureaus have grown, they are better equipped, and they have become more professional as a result of your oversight and support. The benefits of this for the American public cannot be calculated. I would like also to thank the staff of this Subcommittee for its professionalism and patience over the last several years, as we wrestled with the problems that inevitably accompany growth and a rapidly-changing set of challenges. I do not want to miss this opportunity to express my appreciation and gratitude.

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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
March 27, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Term:	91-Day Bill
Issue Date:	March 30, 2000
Maturity Date:	June 29, 2000
CUSIP Number:	912795EC1

High Rate: 5.720%   Investment Rate 1/: 5.885%   Price: 98.554

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	$ 25,270,349	$ 6,940,194
Noncompetitive	1,343,697	1,343,697
PUBLIC SUBTOTAL	26,614,046	8,283,891 2/
Foreign Official Refunded	216,600	216,600
SUBTOTAL	26,830,646	8,500,491
Federal Reserve	7,334,000	7,334,000
Foreign Official Add-On	0	0
TOTAL	$ 34,164,646	$ 15,834,491

Median rate 5.700%: 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 = 26,614,046 / 8,283,891 = 3.21

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,039,691,000

LS-503

PUBLIC DEBT NEWS

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

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

FOR IMMEDIATE RELEASE
March 27, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Term:	182-Day Bill
Issue Date:	March 30, 2000
Maturity Date:	September 28, 2000
CUSIP Number:	912795FB2

High Rate: 5.905% Investment Rate 1/: 6.171% Price: 97.015

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 14%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 18,804,925	$ 2,848,160
Noncompetitive	1,651,860	1,651,860
PUBLIC SUBTOTAL	20,456,785	4,500,020 2/
Foreign Official Refunded	3,000,000	3,000,000
SUBTOTAL	23,456,785	7,500,020
Federal Reserve	5,000,000	5,000,000
Foreign Official Add-On	2,352,000	2,352,000
TOTAL	$ 30,808,785	$ 14,852,020

Median rate 5.890%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.850%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 20,456,785 / 4,500,020 = 4.55

1/ Equivalent coupon-issue yield.
2/ Awards to TREASURY DIRECT = $1,312,516,000

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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U.S. International Reserve Position

March 28, 2000

The Treasury Department today released U.S. reserve assets data for the week ending March 24, 2000.

As indicated in this table, U.S. reserve assets totaled $69,944 million as of March 24, 2000, down from $70,094 million as of March 17, 2000.

(in US millions)

I. Official U.S. Reserve Assets	March 17, 2000			March 24, 2000		
TOTAL			70,094			69,944
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	4,923	6,050	10,973	4,942	5,677	10,619
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	8,422	11,711	20,134	8,454	11,894	20,347
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]			17,620			*17,613*
3. Special Drawing Rights (SDRs) [2]			10,319			*10,316*
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 March 17, 2000 are final. Data for SDR holdings and the reserve position in the IMF shown as of March 24, 2000 (in italics) reflect preliminary adjustments by the Treasury to the March 17, 2000 IMF data.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce. Values shown are as of February 29, 2000. The Januaryr 31, 2000 value was $11,048 million.

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

II. Predetermined Short-Term Drains on Foreign Currency Assets	March 17, 2000	March 24, 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	March 17, 2000	March 24, 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
March 28, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 21-DAY BILLS

Term:	21-Day Bill
Issue Date:	March 30, 2000
Maturity Date:	April 20, 2000
CUSIP Number:	912795DS7

High Rate: 5.99 % Investment Rate 1/: 6.09 % Price: 99.651

All noncompetitive and successful competitive bidders were awarded securities at the high rate. Tenders at the high discount rate were allotted 73%. All tenders at lower rates were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 54,000,400	$ 35,002,400
Noncompetitive	245	245
TOTAL	$ 54,000,645	$ 35,002,645

Median rate 5.96 %: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.93 %: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 54,000,645 / 35,002,645 = 1.54

1/ Equivalent coupon-issue yield.

http://www.publicdebt.treas.gov

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
March 29, 2000

Contact: Steven Posner
(202) 622-2960

MEDIA ADVISORY

The Government Trustees of the Social Security and Medicare Trust Funds will hold a press conference to release their annual report to Congress **at 2:15 p.m. EST on Thursday, March 30** in the Treasury Department's Diplomatic Reception Room (Room 3311), 1500 Pennsylvania Avenue, N.W.

At the press conference, Treasury Secretary Lawrence H. Summers will be joined by the other Government Trustees: Labor Secretary Alexis M. Herman, Health and Human Services Secretary Donna E. Shalala, and Social Security Administration Commissioner Kenneth S. Apfel.

The room will be available for pre-set at 1:15 p.m.

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

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DEPARTMENT OF THE TREASURY

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TEXT AS PREPARED FOR DELIVERY
March 29, 2000

Deputy Assistant Secretary (Public Affairs) Michelle A. Smith,
Testimony Before the Senate Finance Committee

Thank you Chairman Roth, Senator Moynihan and members of the Committee for the opportunity to appear before you today. At the outset, I would like to recognize two people in the audience who play very important roles in my life: my husband Blake and our daughter Madeleine. Their love and support -- as well as the love and support of other members of my family in Texas -- make it all worthwhile.

Mr. Chairman, I consider it a great honor and a privilege to have been recommended by Secretary Summers and nominated by President Clinton to be Assistant Secretary for public Affairs for the Treasury Department.

I began my career working in the mailroom for the former chairman of this distinguished committee, Senator Lloyd Bentsen. In 1992 I became deputy press secretary on his personal staff, working closely with his long-time adviser and press secretary, Jack DeVore. Their example continues to inspire me to the highest ideals of public service.

For the past seven years it has been my privilege to serve in Treasury's Office of Public Affairs under three exceptional leaders: Secretaries Bentsen, Rubin and Summers. Each has taught me a great deal. Above all, they have demonstrated the importance of an unfailing commitment to earning the public trust through truthfulness and honest dealings. By their actions, they have shown me that this is not only a vital ingredient of our dealings here at home but our relations abroad, as well. If confirmed, I will continue to dedicate myself -- and the Office of Public Affairs -- to maintaining the high standards of excellence they have set for responsiveness and openness with the American people, their representatives in Congress and with members of the press.

In closing, Mr. Chairman, I'd like to express my deep gratitude to Secretary Summers. For seven years, I have depended on his sound professional and personal guidance and I have been inspired by his courage to do what is right.

Thank you again, Mr. Chairman, for the opportunity to appear before the Committee today. I would be pleased to answer any questions you or the Committee might have.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
March 29, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate:	6 1/2%	Issue Date:	March 31, 2000
Series:	T-2002	Dated Date:	March 31, 2000
CUSIP No:	9128276B3	Maturity Date:	March 31, 2002
STRIPS Minimum:	$400,000		

High Yield: 6.580% Price: 99.852

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 33%. All tenders at lower yields were accepted in full.

AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
Competitive	$ 28,917,173	$ 10,087,541
Noncompetitive	1,917,340	1,917,340
PUBLIC SUBTOTAL	30,834,513	12,004,881 1/
Federal Reserve	3,514,730	3,514,730
Foreign Official Inst.	1,700,000	1,700,000
TOTAL	$ 36,049,243	$ 17,219,611

Median yield 6.550%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 6.480%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 30,834,513 / 12,004,881 = 2.57

1/ Awards to TREASURY DIRECT = $1,229,390,000

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

FOR IMMEDIATE RELEASE
March 29, 2000

CONTACT: Office of Financing
202-691-3550

RESULTS OF TREASURY'S AUCTION OF 19-DAY BILLS

Term:	19-Day Bill
Issue Date:	March 30, 2000
Maturity Date:	April 18, 2000
CUSIP Number:	912795GX3

High Rate: 6.00 % Investment Rate 1/: 6.11 % Price: 99.683

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	$ 57,225,000	$ 30,070,700
Noncompetitive	0	0
TOTAL	$ 57,225,000	$ 30,070,700

Median rate 5.98 %: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low rate 5.92 %: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 57,225,000 / 30,070,700 = 1.90

1/ Equivalent coupon-issue yield.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED UNTIL 10:00 A.M. EST
Text as Prepared for Delivery
March 31, 2000

TREASURY FISCAL ASSISTANT SECRETARY DONALD V. HAMMOND TESTIMONY BEFORE THE HOUSE GOVERNMENT REFORM SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Mr. Chairman and members of the Subcommittee, I am pleased to appear today to discuss matters involving the Financial Report of the U.S. Government. First, I would like to thank the Chairman, the Ranking Member, and other members of the Subcommittee for your continued focus on the priority need to improve financial accountability and reporting in the Federal Government. While we have made steady progress and improvements over the last few years, significant challenges must be met before we can produce entirely reliable financial statements of the highest quality for the U.S. Government.

BACKGROUND

The Department of the Treasury has been, and continues to be, a strong proponent of the development of financial statements for Government agencies and for consolidated financial statements for the Government as a whole. The Government Management Reform Act of 1994 (GMRA) requires the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, to submit to the President and the Congress not later than March 31 of each year audited financial statements for the preceding fiscal year covering all accounts and associated activities of the executive branch of the United States Government. This is the third year audited financial statements have been prepared on a government-wide basis and submitted in accordance with the statutory due date of March 31. Timeliness is an important first step in the process and one we always intend to meet. The Financial Report of the U.S. Government for FY 1999, which includes the financial statements, provides the President, the Congress, and the American people with information about the Government's financial position, the cost of its operations, and its sources of financing.

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The Financial Report of the U.S. Government is prepared based on the accrual basis of accounting as prescribed by generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB). GAAP recognition was achieved this year by FASAB through a comprehensive process developed by the American Institute of Certified Public Accountants (AICPA). We are extremely pleased and proud of this milestone because it clearly demonstrates that the government's standards have been developed through a fair and open process and that our accounting aspirations are of the highest magnitude. In addition, GAAP recognition will improve the professionalism and public perception of our reports. We also believe that this reflects favorably on the level of financial professionalism in the Federal government and, thereby, allow us to more effectively compete for essential accounting expertise.

PROGRESS MADE

We continue to be committed to producing financial statements that meet the highest standards. Given the daunting challenges that faced us when we began this process just over three years ago, we have made substantial incremental progress this year towards this goal. Since issuing the first consolidated financial statements in March 1998, we have been working in close cooperation with OMB, GAO, and the program agencies to improve the quality of the Financial Report. Within the Treasury Department, the Financial Management Service (FMS) undertakes the tremendous operational task of producing these statements under very tight deadlines. This past year we continued to focus much of our attention in three critically important areas. First, ensuring that the financial information reported to us by the program agencies is consistent with the information in the agencies' own financial statements. Second, identifying, reconciling and eliminating intragovernmental transactions. And third, assisting agencies in reconciling their fund balances with Treasury records. I am pleased to report that we have made substantial progress in each of these areas.

Consistency of Financial Information

It is essential that the information provided by agencies to Treasury for inclusion in the Financial Report be consistent with the information in the individual agency-level financial statements. The agency-level financial statements are audited separately and the audit of the government-wide financial statements relies in large part on the audits conducted of the agency-level financial statements. Consistency problems arise when agencies provide information to Treasury that is classified differently or fail to provide information that was included in their agency-level financial statements. This is a problem that needs to be addressed at the agency level and uniformly across government with guidance from OMB, Treasury, and GAO. During the past year, OMB, Treasury, and GAO have worked diligently to dramatically improve the consistency of the financial information. We have taken significant steps towards accomplishing this objective.

Treasury has taken many actions to improve consistency. We convened an interagency working group to identify barriers to consistency and recommend solutions. As a result of the efforts of this working group, a new verification procedure was implemented. This procedure requires that agency CFOs and IGs work together to submit a comprehensive worksheet to Treasury, OMB, and GAO, which crosswalks the agency audited financial statement data to the data submitted to Treasury. This worksheet enables OMB, GAO and Treasury to determine if the financial data is consistent. It also provides the central agencies with a more detailed understanding of the data presented in the agencies' statements though it shifts much of the burden of the analysis from the agencies to FMS and GAO. This worksheet is based on the U.S. Government Standard General Ledger (SGL), which is required to be used in all agency financial systems by the Federal Financial Management Improvement Act (FFMIA) of 1996.

In addition, during this past summer, Treasury worked with each agency to reconcile their FY 1998 ending net position. This reconciliation effort has improved significantly the FY 1999 opening net position balances, with the ultimate goal of having Treasury's opening balance agree with the agencies' opening balance. Treasury also met with all 32 reporting entities that are required to verify consistency to discuss processes, to review performance, and to understand issues that affect agency financial statements.

Agencies report both adjusted trial balance (ATB) data and more detailed footnote data to Treasury. In the past, the amounts reported in the two sets of data often did not agree. To help rectify this problem, this past year Treasury introduced an enhancement that informed agencies of the ATB totals at the time they report their footnote data. This procedure was designed so that agencies can make certain that their totals agree before the footnote data is transmitted to Treasury.

Treasury also held a Senior Executive Forum, which was well attended by agency CFOs and IGs. The forum allowed CFOs and IGs, OMB, Treasury, and GAO to exchange ideas and information in search of solutions to these common problems.

We have made substantial progress over the past year in improving data consistency. The new process we're using to ensure consistency is a considerably more rigorous process than was used last year. With the agency worksheets, we are now in a position to review the data and do analyses to improve the consistency of the data. However, this process is limited by the tight timeframes dictated by the report's due date. This process will show continued improvement as the agencies become more comfortable with the reporting requirements. We feel comfortable that verifiable progress is being made although the consistency problem has not yet been resolved.

Elimination of Intragovernmental Transactions

The audits of the agencies' financial statements have disclosed that the agencies continue to be ineffective in identifying transactions with each other so the transactions can be reconciled or "eliminated" for government-wide reporting. If these transactions are not properly eliminated, total Government assets, liabilities, revenues, and expenses will be misstated by the net amount of these transactions.

Treasury continues to make significant progress to achieve the goal of reconciling certain intragovernmental transactions so that they can be properly eliminated. Starting two years ago, Treasury provided two-digit identification codes for agencies to use in identifying their governmental transaction partners. The consistent use of these codes is critical to our ability to eliminate these intragovernmental transactions. During FY 1999, trading partner data was distributed to agencies so that they could review and analyze the information.

This past year, Treasury continued to focus on resolving the intragovernmental elimination issues for the category of transactions with the largest dollar amounts. These involve transactions between program agencies and either the Bureau of the Public Debt or the Federal Financing Bank (FFB). Last year, we reported that we were unable to explain $1.426 billion in intergovernmental investment and borrowing transactions. I can report that for this year's activity the unexplained difference issue for these transactions has been resolved. A major reason for this is that Treasury instituted a new policy requiring program agencies to confirm and reconcile their end of fiscal year investment and borrowing balances with Public Debt and the FFB. We don't have specific explanations for about $6.4 million in differences, however, we are confident these transactions have no impact on the financial statements. Our progress in this area is evident when one recognizes that gross intergovernmental investments and borrowings, not including annual activity, amount to more than $2 trillion.

During FY 1999, Treasury also put in place new procedures for reconciling transactions with the Department of Labor relating to the Federal Employees' Compensation Act (FECA) and transactions with the Office of Personnel Management (OPM) relating to employee benefit programs. We made progress in this area in disclosing out of balance conditions but more work will be necessary before a complete reconciliation can be effectively performed.

Regarding buying and selling transactions between Federal agencies (which have high transaction volumes but smaller dollar amounts), Treasury issued elimination guidance to all agencies covering accounting and reconciling procedures for FY 1999 reporting. The requirements for reconciliation with agency trading partners on a regular basis are more detailed and formalized than in previous years and designed to create a disciplined, routine approach to these reconciliations.

In addition, Treasury, OMB, and GAO have been actively working together in governmentwide task forces to solve the elimination problems and improve the financial reporting of the government. Recently, the CFO Council Intragovernmental Eliminations Task Force was created to sponsor an initiative to develop a web-based application that will support the FY 2000 confirmation and reconciliation process. The CFO Council also formed another group to more clearly define the issues preventing us from completely eliminating intragovernmental buying and selling transactions and suggest long-term solutions to the issues identified.

Treasury is committed to continue working with agencies to assure that intragovernmental transactions are properly accounted for and reported in agency financial statements and also properly identified and eliminated at the consolidated financial report level.

Reconciliation of Fund Balances

Treasury has made significant efforts to assist agencies in reconciling their fund balance amount with the amount reported to them by Treasury. The fund balance amount is an agency level asset account that reflects the available budget spending authority of that agency. Treasury regularly notifies agencies of potential discrepancies in their fund balances, as compared to Treasury records, and agencies are responsible for resolving the differences in a timely fashion. Today, the discrepancies most often are a result of timing differences and are normally quickly resolved.

During this past year, Treasury issued policy and detailed procedural guidelines for reconciling the fund balances; we held agency forums in San Francisco, Dallas, Kansas City, Philadelphia and Washington; and, we continued to offer formal training courses. Since being established last year, the FMS web-site on this subject has been accessed over 1,000 times. FMS, through its Center for Applied Financial Management, continues to offer a number of core competency courses in financial reporting and reconciliation. One such course is "Reconciling Fund Balance with Treasury". As an example of the level of interest, more than 200 individuals from 12 cabinet departments have taken this training.

Recently, Treasury and DOD personnel concerned with problems and issues associated with these reconciliations established a program of monthly meetings to facilitate communication and to further improve the reconciliation process at DOD.

On a government-wide basis, as of September 30, 1999 there were about $883.1 million, $104.0 million, and $7,312.7 million net differences between our records and those of the program agencies in three key areas - Deposits, Disbursements, and Checks Issued. These differences represent cumulative net differences since the early 1960's when the current central accounting system was originally built. These differences are, for the most part, timing differences (much like your checkbook and your bank statement) and most are quickly resolved by the agencies. For example, when you review only those differences greater than five months old, the differences are $91.6 million, $58.8 million, and $250.9 million respectively.

We do, however, agree that further improvements in this area need to be made. As discussed in our long-term challenges, this is an area where change is needed. Reconciliation of fund balances needs to be a routine, on-going accounting function that is done on a timely basis. Agencies have made significant strides to institutionalize the process and we expect to see additional improvements in FY 2000.

CHALLENGES

While we believe we have made substantial progress in the past year, the current state of federal financial reporting requires significant improvements in a number of areas. I am confident that with a coordinated, committed effort by Treasury, OMB, the CFO Council and the GAO these improvements will be achieved. Much remains to be done both in the short and long-term horizons. In the short term, we will continue to make those changes necessary to improve the preparation of the Financial Report of the U. S. Government. In the long term, as I announced last year, we are embarking on a project to make fundamental changes in the way we do federal accounting.

Short-term

Our most significant short-term challenges continue to be in the three specific areas that we have been working on over the last two years as well as eliminating fund balance differences as an area of ongoing concern. First, we need to further refine and improve the process to ensure consistency between agency financial statements and data used to produce the Financial Report of the U.S. Government. Second, we need to continue to make substantial progress in eliminating intragovernmental transactions. Finally, we need to fully develop the process for a complete reconciliation of the budget results with the financial statements' results of operations.

Regarding consistency, in April, we will meet with GAO and OMB to jointly evaluate the new process implemented this year and formulate improvements in procedures, guidance, and analysis. By building on the agency crosswalk process and learning from its implementation in FY 99, we expect to make additional progress in this area. This process also highlighted the need to be able to thoroughly analyze the data submitted by the agencies.

Regarding the elimination of intragovernmental transactions, most of our efforts will be spent working with OMB and the program agencies to identify and put in place additional processes to improve reconciliations with Labor and OPM as well as to reconcile buying and selling transactions between Federal agencies. We will be successful in this area when agencies routinely conduct these reconciliations and resolve any differences on a regular basis.

Regarding reconciliation of the budget results with the Financial Report's results of operations, we have developed a data model to systematically reconcile the majority of the necessary transactions. We have retained a private contractor to help us test the model and assist in identifying any additional information necessary to perform a thorough reconciliation. Two pilot agencies have been identified to participate in this process. This summer, after testing the model and identifying additional data needs, we will make the necessary modifications to reporting systems for data collection for the FY 2000 Financial Report. With the continued assistance of GAO, we are working to improve the process.

A difficult challenge in improving the reliability and accuracy of financial information is the need to increase the use of the SGL in agency accounting systems. Our ability to prepare the consolidated financial report using SGL data so that it is consistent with data in agency statements is hampered by the fact that a large number of agencies do not properly use the SGL. In many instances, agencies cannot adequately produce and send the SGL data to Treasury because their systems do not record accounting events using the SGL at the transaction level as mandated by the FFMIA. This results in additional workload and processes to ensure that amounts are recorded in the proper accounts. Additionally, this frustrates attempts to maximize efficiency through the creation of automated analytical tools. As agencies move closer to full compliance with FFMIA, and more importantly, use SGL-based data as the basis for their agency financial statements, financial reporting at every level will be considerably improved.

Long-term

The preparation of a consolidated financial statement for the U.S. Government has highlighted that our current systems for reporting budget execution information also need to be improved. In conjunction with the changes being made to improve the processes associated with the Financial Report, Treasury, through its Governmentwide Accounting Modernization Initiative, will improve the processes associated with the reporting of receipts and outlays in the "Monthly Treasury Statement" and the "Annual Report" as well as those associated with maintaining each fund account's balance with Treasury.

This project will fundamentally change the processes that program agencies use to report financial data to the central agencies, provide program agencies with more useful and timely presentations of their data and improve the reliability of governmentwide totals published by OMB and Treasury. Our approach is to work with program agencies, OMB and GAO in implementing both short-term and long-term improvements in central accounting and reporting processes. On a short term-basis we intend to make improvements which should assist agencies in reconciling their fund balances by making information available from our legacy system using web-based technology. Accounting information will be available "next day" whereas it is not now available until 5-6 weeks after the transaction occurs.

In the long-term, we intend to make fundamental changes to the overall processes in our central accounting system to streamline reporting, eliminate reconciliation burdens, and further improve access to accounting data. The major objectives are to provide program agencies with one stop shopping using internet technology to retrieve information provided to Treasury and to greatly reduce the reporting and reconciliation burden on program agencies.

CONCLUSION

Improving financial management and accountability has been and remains an important Treasury priority. We have taken and will continue to take actions to correct weaknesses and address problems in the preparation of the governmentwide financial statements. Treasury will also continue its leadership role in providing guidance, assistance and support to agencies in their on-going efforts to improve their accounting practices and financial management systems. Our ultimate success will be achieved when we can reliably report on the disparate financial activities of the many components of government seamlessly as if they were a single entity.

Thank you, Mr. Chairman. This concludes my formal remarks and I would be happy to respond to any questions.

DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:15 PM EST
Text as Prepared for Delivery
March 30, 2000

TREASURY SECRETARY LAWRENCE H. SUMMERS REMARKS AT THE MEDICARE AND SOCIAL SECURITY TRUSTEES PRESS CONFERENCE

Today the Boards of Trustees of the Medicare and Social Security Trust Funds met to complete our annual review of the financial status of the Trust Funds and to send a report to Congress on each of them.

The financial status of both programs has improved since last year's report. With respect to Medicare, the long-term actuarial gap has been reduced again, and the projected Trust Fund exhaustion date has been pushed back eight years to 2023. The long-term actuarial gap for Social Security also narrowed, and the exhaustion date of the Trust Fund has been pushed back three years to 2037.

The improved financial positions of Social Security and Medicare reflect the ongoing robust expansion of the economy and the continued brightening of the long-term outlook. For Social Security, the improvement also reflects improved methods in producing the estimates. On the Medicare side, efforts to hold down spending growth and strong management of the program have also contributed to the favorable outcome.

Although the financial outlook for both programs has improved, hard work remains to be done to assure their strength for decades to come. Almost all experts agree that the single most important step we can take to prepare for the coming demographic shift is to use the current budget surpluses to increase national saving. In this regard, it is extremely encouraging that a bipartisan consensus has emerged that the Social Security surpluses should be used to pay down the debt held by the public, so that these surpluses correspond to an increase in government and national saving. In addition, the President has called for transferring a portion of the projected on-budget surpluses to Social Security and Medicare, in such a way that debt reduction will make a contribution to extending the solvency of these critical programs. This plan of transfers and debt reduction would enhance the ability of both Trust Funds to pay currently promised benefits and would put us on a trajectory toward eliminating the debt held by the public, on a net basis, by 2013.

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The President continues to believe that we ought to work toward putting Social Security on a sound financial footing for the long term, and he would welcome the opportunity to work with the Congress toward achieving that objective. The bipartisan consensus that formed around the elimination of the retirement earnings test shows what can be accomplished when we work together. The estimates in the Report do not reflect this action, but the Trustees do not expect it to have a material impact on the actuarial balance or the exhaustion date. For Medicare, the President has put forward a detailed and comprehensive proposal to modernize the program and add a much needed prescription drug benefit, and he hopes that bipartisan action on Medicare reform will occur soon. It continues to be of critical importance that we strengthen Social Security and Medicare and assure their viability for future generations.

In an era of growing surpluses, the President has made the difficult decision to call for using these surpluses to improve our Nation's fiscal position. Fiscal discipline has contributed enormously to the current economic expansion. We must continue with fiscal discipline and use the benefits to strengthen Social Security and Medicare.

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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.
March 30, 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 $16,000 million to refund $16,440 million of publicly held securities maturing April 6, 2000, and to pay down about $440 million.

In addition to the public holdings, Federal Reserve Banks for their own accounts hold $8,084 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 $3,497 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 $883 million into the 13-week bill and $801 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 APRIL 6, 2000

March 30, 2000

Offering Amount	$8,500 million	$7,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912795 ER 8	912795 FC 0
Auction date	April 3, 2000	April 3, 2000
Issue date	April 6, 2000	April 6, 2000
Maturity date	July 6, 2000	October 5, 2000
Original issue date	January 6, 2000	April 6, 2000
Currently outstanding	$10,461 million	---
Minimum bid amount and multiples	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

Competitive bids .... (1) Must be expressed as a discount rate with three decimals in increments of .005%, e.g., 7.100%, 7.105%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $1 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

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

Maximum Award.................. 35% of public offering

Receipt of Tenders:

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

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

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

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EMBARGOED UNTIL 2:30 PM EST
Text as Prepared for Delivery
April 4, 2000

TREASURY SECRETARY LAWRENCE H. SUMMERS TESTIMONY BEFORE THE SENATE APPROPRIATIONS SUBCOMMITTEE ON TREASURY AND GENERAL GOVERNMENT

Mr. Chairman, Mr. Dorgan, Members of this Committee, I appreciate this opportunity to discuss Treasury's FY2001 budget request and to seek to continue to work in the cooperative spirit that we and Members of the Committee have achieved. I would like to take this opportunity to thank this Committee for its impressive and productive work over the years.

As you know, Treasury plays a crucial role in the core functions of government, including tax administration, revenue collection, law enforcement, financial management, tax policy, banking policy and international and domestic economic policy.

We propose a budget that will enable Treasury to continue to provide the American public with the customer service and program reliability it expects and deserves.

Our budget request totals $14.245 billion for all operations. After taking into account two offsets – a $210 million fee on Customs' automated commercial system for the Automated Commercial Environment (ACE) and $42.5 million from the use of the estimated potential balance from the Treasury Forfeiture Fund – our appropriation level would be $13.992 billion.

We have provided the Committee with a detailed breakdown of Treasury's FY2001 budget request. Let me today highlight five important areas of focus.

- First, supporting continued IRS modernization.
- Second, strengthening our ability to fight drugs, violence and crime.
- Third, modernizing our trade systems.
- Fourth, enhancing our financial management.
- And fifth, supporting management operations.

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

I. Continuing to modernize the IRS.

In its new mission statement, the IRS has pledged to focus on two core priorities: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities, and apply the tax law with integrity and fairness to all."

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. This argument is no different from believing that businesses face a trade-off between quality and cost.

We have heard similar false choices posed through the years. To have effective tax administration, there must be both compliance and high-quality customer service. A trade off is neither necessary nor desirable.

Under the leadership of Commissioner Rossotti, the IRS has already made impressive progress towards meeting both these goals. But there is more to accomplish.

In particular, we need resources to focus on three areas:

Continued support for organizational modernization.

Until recently, IRS was organized along geographic lines. At the direction of Commissioner Rossotti, the IRS is reorganizing along customer lines. This enables the IRS to provide better service to groups of taxpayers with similar needs. This reorganization also enables the agency to become more effective and focused. For example, it will improve the agency's ability to clamp down on abuse of the tax code, including combating the growth of abusive corporate tax shelters.

The reorganization also involves building a modern management structure to enable the IRS to serve its customers better. This will involve significant re-training of staff because many are being asked to take on redefined roles. FY2001 provides the second year of major funding for the IRS reorganization. We strongly believe this restructuring effort is putting the agency on the right track. It is imperative that we support the employees and leadership at the IRS so they can complete this monumental task of reorganizing the IRS for the first time in almost 50 years.

Continued support for computer modernization.

The IRS is embarking on a plan to replace its antiquated computer system to bring it into the new century. The IRS core data systems are fundamentally deficient. The Master File system, on which all taxpayer accounts reside, is based on outdated 1960s technology. Modernizing the agency's technology will enable it to deliver on its pledge to provide better customer service for all and is absolutely necessary for the agency to make the improvements that the public needs.

In our FY 2001 budget, we are asking for another deposit into the Information Technology Investment account (ITIA) to keep this program on track. The Committee has shown its support for this program in past years by making the needed deposits, and we ask that you continue to support this critical program.

Stabilizing the IRS.

The IRS is on the road toward modernizing its organizational structure and computer systems. For several reasons, we feel the time is now right to reverse the decline in staff that has occurred at the agency over the last 5 years. First, no one anticipated the resources required to implement the very important provisions of the Restructuring and Reform Act. Second, recent articles have highlighted the decline in enforcement activity over the last few years -- a trend Commissioner Rossotti and I are particularly concerned about.

We feel the time is right to permit a modest expansion in IRS resources to ensure the integrity of the tax system, which depends heavily on maintaining voluntary compliance, and to provide the service the American taxpayers deserve. Our request provides 2,800 new positions, an increase of 2.9 percent over the next two fiscal years.

II. Strengthening our ability to fight drugs, violence, and other crimes.

Our second focus today is on improving our capacity to fight drugs, violence and other crimes.

As this Committee knows, Treasury oversees six law enforcement bureaus: Customs, the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the IRS, FinCEN, and the Federal Law Enforcement Training Center. Each of these has critical and extensive responsibilities.

Our FY2001 budget request enables Treasury agencies to continue to play a full role in the crucial anti-crime initiatives in which this Administration is engaged.

Mr. Chairman, last year you and others expressed concerns about the disparity of treatment between Treasury law enforcement and our Justice counterparts. This year's budget provides Treasury law enforcement with an 18 percent increase over the FY2000 budget. It recognizes the special law enforcement role that Treasury plays in the Administration's anti-crime strategy.

The proposals would result in the largest increase in Treasury law enforcement funding in more than a decade. Let me focus briefly on four key areas of this request.

Reducing Trafficking, Smuggling and Use of Illicit Drugs

Our request supports the Administration's counter-narcotics strategy by providing Treasury with resources critical to reducing the trafficking, smuggling, and use of illicit drugs across our borders.

The budget request supports Custom's responsibility to facilitate legitimate trade, while interdicting contraband through the use of enhanced technology and equipment. Customs remains committed to improving the efficiency and effectiveness of its drug interdiction.

Specifically, the budget request supports:

- Aircraft with upgraded interdiction and surveillance equipment.

- Non-intrusive inspection equipment for expanding interdiction efforts along the southwest border;

- And additional personnel and investigative equipment to support Customs Counter-drug Initiative. This will include new positions to implement the Foreign Narcotics Kingpin Designation Act and improve information-gathering capabilities on terrorist funding and narcotics trafficking. Our FY2001 request builds upon last year's supplemental request.

Combating financial crimes and money laundering.

Our budget request also supports Treasury's central role in the implementation of the Administration's National Money Laundering Strategy. Deputy Secretary Eizenstat and Deputy Attorney General Holder unveiled the 2000 Strategy this week. The Strategy is aimed at combating dirty money and, in doing so, giving us additional weapons to fight the underlying crimes.

Money laundering has a number of intolerable effects on the U.S. economy and on American society. It enables the criminal to invest the proceeds in the perpetuation of the underlying crime, many of which are violent and spread drug addiction in our communities. It taints the U.S. financial system and damages the reputation of those involved. And it undermines U.S. government programs to support democracy and economic development around the world.

Our request will enable us to support initiatives in zones designated as high-risk financial crime areas (HIFCA). The budget also supports Customs, IRS, and the Financial Crimes Enforcement Network (FinCEN) by providing them with resources to strengthen the fight against money laundering. It will also enable these agencies to respond to additional information gathered from the expanded reporting requirements for non-bank financial institutions.

Protecting Our Nation's Leaders.

Few agencies are required to work under such pressure or meet such rapidly expanding demands as the Secret Service. The dramatic rise in global terrorism and a significant increase in the number of protectees have intensified the Secret Service's critical responsibility of protecting our nation's leaders.

We must address the increased workload of the Secret Service and the resultant decline in working conditions in order to retain members of this highly trained workforce and ensure their safety and the safety of their protectees. We are requesting 250 new positions in addition to the new positions in the FY 2000 appropriation.

The increased hiring by the Secret Service and ATF will result in a significant increase in the workload at the Federal Law Enforcement Training Center (FLETC). This budget provides funding to address this increase and continues implementation of FLETC's five-year Master Plan.

Reducing firearms violence.

Mr. Chairman, we have all been deeply affected by a number of recent incidents that have focused attention on the level of armed crime in this country. There is a great deal of debate about the correct level of policy response. But, it is fair to say that there is now widespread agreement about the need to enforce existing laws to the fullest extent possible.

Our request will help us to build on existing efforts that fall within our firearms enforcement strategy, including the Integrated Violence Reduction Strategy (IVRS), the Youth Crime Gun Interdiction Initiative (YCGII), nationwide crime gun tracing, and the National Integrated Ballistics Information Network (NIBIN).

These and other efforts, strongly supported by President Clinton, Vice-President Gore and this Committee, have contributed to the sharp reduction in firearms violence in the last few years. With strong inter-agency support from the Department of Justice, our initiatives have also resulted in a clear rise in the number of firearm prosecutions, an increase of more than 12 percent between 1992 and 1999. But we can address more violations of firearms law. And we must reduce firearms violence further.

Our request strengthens our ability to achieve this national priority in four ways:

- First, providing funding for 300 new agents, 200 new inspectors and 151 new support staff at the Bureau of Alcohol, Tobacco and Firearms so that the agency can continue its crucial work of collaborating with state and local law enforcement agencies to reduce illegal acquisition, possession, misuse, and trafficking of firearms.

- Second, increasing the number of cities under the Youth Crime Gun Interdiction Initiative enforcement program by 12, bringing the total to 50.

- Third, strengthening the crime gun tracing system for law enforcement agencies nationwide, including equipment and training support for 250 state and local law enforcement agencies.

- And fourth, bolstering the Treasury and Justice Department's unified effort to provide automated ballistics imaging technology to Federal, State, and local law enforcement agencies.

In addition, Treasury has asked for funding to meet several other critical challenges. These include enforcement of laws against forced child labor, support for Secret Service and

Customs efforts on counter-terrorism, and airspace security in support of special national events. The budget provides funding for these important responsibilities.

III. Modernizing our trade systems.

Our third focus is on modernizing our trade systems. Like the IRS, Customs has experienced a significant increase in demand on its trade system, and the system is not able keep pace. Since the Customs Modernization Act was passed in 1993, the number of merchandise lines on customs formal entries has more than doubled. The Customs Service is required to cope with this sharp rise in trade with substantially the same outdated technology it had when the Act was passed. Given the critical role of Customs in handling enormous volumes of goods and in combating drug and other types of trafficking, it is important that be equipped with the best tools to fulfill these goals.

As I have indicated, Customs is not alone in having to work with antiquated technology. We have learned a great deal from the experience of the IRS and are applying these lessons to Customs. These lessons include forging a clear and well-defined partnership with the private sector; adopting a systems life cycle discipline; and using an enterprise-wide blueprint and architecture to guide the integration of systems as they are developed.

Our request has two main elements:

- Additional resources to maintain the existing trade system, the Automated Commercial System, (ACS). The system is prone to outages or "brownouts," and it is important that we do what is necessary to minimize such disruptions.

- Begin work on a new system, the Automated Commercial Environment (ACE), which will eventually replace the ACS. This replacement is critical and will require a multi-million dollar investment over several years. We propose to establish a fee to fund the development of ACE, and that the fee would appropriately capture some of the benefits that will accrue to private business from modernization. These include a streamlined cargo entry process, account-based transactions, and a paperless process. It is imperative to secure funding for this critical program. The Administration looks forward to working with Congress on the fee to ensure that funding is available in FY2001, and through the life of the program.

IV. Enhancing financial management.

My fourth focus is on financial management. We have made important progress this year with respect to the nation's money. We have overseen the development of the new five and ten dollar bills that will start circulating in May. And we have seen what has so far been a very successful introduction of the new dollar coin.

At Treasury we believe it is essential to achieve the highest standards of financial management. The two bureaus of the Fiscal Service – the Financial Management Service (FMS) and the Bureau of the Public Debt (BPD) – provide core services in the areas of government payments, collections, government-wide accounting and reporting, collection of delinquent debt, and Federal Government financing.

These are vital functions that enable Congress and the American public to have confidence in the ability of the U.S. government to keep a detailed and accurate account of public finances and to manage its finances professionally. This year, the Bureau of Public Debt carried out a new mission of buying back debt as a complement to its more traditional mission of issuing debt.

Owing to the excellent stewardship of the fiscal bureaus – including redirection of base resources and reinvestment of productivity savings for investment in state-of-the-art electronic commerce technologies – the budget proposals for the FMS and BPD are comparable to last year's requests.

Let me briefly in this context mention the budget request for the President's "First Accounts" initiative that aims to "Bank the Unbanked." To help fulfill the goals of this initiative, we will use Treasury's financial expertise to encourage low-income families who do not receive Federal benefits to open bank accounts.

Between 10 and 20 percent of our population lacks access to bank accounts and can pay up to $15,000 over a lifetime for routine transactions such as cashing a check or paying a bill. This is something that we have started to address through the EFT and ETA programs for those who receive Federal benefit payments. We believe it is important to work with the private sector to extend this opportunity to those who do not benefit from Federal payments.

V. Maintaining Management Operations.

Our final area of priority is maintaining support for management operations. Departmental Offices provides the programmatic oversight and technical support essential to the Secretary's leadership role in law enforcement, revenue collection, international and domestic economic and tax policy, and financial management. The budget supports these functions with:

- Increases for core infrastructure operations, including technology upgrades that support Treasury's leadership role on economic issues.
- Essential resources required in Domestic Finance to oversee implementation of the recently enacted Financial Modernization Act, the most sweeping change in the regulation and management of financial institutions since the 1930s.
- Continued funding for the multi-year program to repair and restore the historic Main Treasury Building and Annex begun in December 1998.

In addition, our request supports four major projects: the Human Resources Information System; Integrated Treasury Network, Critical Infrastructure Protection, including the banking and finance sector; and the Public Key Infrastructure pilots.

The budget also strengthens the audit and investigative efforts of the Office of Inspector General and enhances the capacity of the Treasury Inspector General for Tax Administration to conduct mandated and discretionary reviews of IRS operations.

VI. Community Adjustment and Investment Program.

I would also like to report on the progress of the Community Adjustment and Investment Program or the CAIP, which is the domestic window of the North American Development Bank. but receives its own appropriation entirely independent from NAD Bank funding. The CAIP has been particularly effective in helping to create and sustain jobs in communities experiencing temporary job dislocation attributable to changing trade patterns related to NAFTA. To date, CAIP financing has helped to create and sustain over 7,000 jobs by facilitating more than $225 million in loans, loan guarantees and grants to businesses, workers, and communities. I urge you to support this year's funding request for the CAIP.

VII. Conclusion.

Mr. Chairman, let me conclude on a personal note. Since becoming Treasury Secretary last year, and in the seven years that I have worked in this department, I have been deeply impressed by the intelligence, professionalism and dedication of the people with whom I have worked. I am sure this Committee shares my confidence in the uses that are being made of taxpayer funds. In that spirit, I ask that you approve our FY 2001 budget request to support the work of the Treasury Department in fulfilling its wide range of responsibilities in serving the American people. Thank you very much.

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FOR IMMEDIATE RELEASE
March 30, 2000

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ADMINISTRATION SUPPORTS BALANCED APPROACH TO INTERNET POLICY MAKING

Urges All Stakeholders to Continue Working With Those Who Seek to Find Solutions in Good Faith

The three Federal government representatives on the Advisory Commission on Electronic Commerce (ACEC) today urged all stakeholders to continue to work in good faith to achieve a balanced consensus on the difficult issues associated with the taxation of electronic commerce. They released a statement to be attached to the Commission's final report setting forth in detail the Administration's position.

The Administration supports a permanent ban on taxes on Internet access; a permanent ban on customs duties on electronic transmissions; a continuation of the moratorium on multiple and discriminatory taxes; international tax rules that are neutral, nondiscriminatory, simple and certain; and simplification of state and local sales taxes and telecommunications taxes.

Congress passed the Internet Tax Freedom Act, which created the ACEC, specifically requiring a two-thirds supermajority vote to include any findings or recommendations in the final report. When it became clear that a two-thirds supermajority would not be obtained, the Commission became subject to procedural maneuvering to ensure that the only comprehensive proposal included in the final report was the one supported by offered by Chairman Gilmore and his coalition. As a result the Federal Representatives had no choice, but to vote against the final report, because it did not comply with the rules established by Congress.

"This flawed process led to a report that includes a proposal that is strongly opposed by the vast majority of Republican and Democratic Governors, virtually all other state and local government officials, and large segments of the business community" said the three Federal Representatives on the Commission. "The report is unfair in its presentation of the results."

The Administration officials worked throughout the process, striving to achieve a balance between the interests of technology, the needs of state and local governments, and the continued viability of traditional retailers, large and small. The Administration pledged to continue to participate in constructive discussion of these issues in the future with state and local officials, representatives from all sectors of the business community, members of Congress, and anyone who in good faith seeks to find solutions to these important and complex issues.

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The three Federal Representatives serving on the Commission were Joe Guttentag, Senior Advisor, U.S. Department of the Treasury, Andrew Pincus, General Counsel, U.S. Department of Commerce, and Robert Novick, General Counsel, Office of the United States Trade Representative.

To read the full text of the statement, please visit ***www.treas.gov***.

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FOR IMMEDIATE RELEASE
March 30, 2000

STATEMENT SUBMITTED TO THE ADVISORY COMMISSION ON ELECTRONIC COMMERCE BY COMMISSIONERS JOSEPH GUTTENTAG, ANDREW PINCUS AND ROBERT NOVICK

The Commission was charged by Congress with the important challenge of trying to provide recommendations to Congress on the significant issues surrounding state taxation of electronic commerce. Electronic commerce and the associated explosion of the information technology sector are key sources of economic growth in the United States and around the world. As the President has stated on several occasions, it is important to establish the right rules in this area in order to promote a policy environment that is pro-growth, nondiscriminatory, and provides appropriate revenues that communities need to meet vital public purposes.

Unfortunately, the Commission was not able to rise to this challenge and did not serve as a forum to forge a principled consensus on how to address the issues. Rather than foster consensus, the Commission's process instead fostered divisiveness -- allowing posturing to take precedence over policy. This flawed process prevented the Commission from fulfilling its Congressional charge and led to a final Report that includes only the "majority" view, which is strongly opposed by the vast majority of Republican and Democratic Governors, virtually all other state and local government officials, and large segments of the business community.

The challenge of reaching a principled consensus was made more difficult by the fact that the Commission never represented the full range of stakeholders with interests in these important issues, such as "Main Street" retailers. Inclusion of these voices on the Commission – rather than as witnesses – would have provided more balance. Nevertheless, reasonable compromise proposals were put forward to reach a principled consensus. Unfortunately, these were rebuffed.

Moreover, procedural machinations were employed to favor some views and suppress others. By statute, Congress set a high bar for the final Report, requiring a two-thirds supermajority of Commissioners for the inclusion of valid findings and recommendations. This requirement was designed to ensure that the Commission's recommendations reflected a real consensus between stakeholders. However, once it became clear that the two-thirds supermajority required by Congress would not be obtained, the Chairman and other Commissioners supporting the "majority"

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proposal simply changed the rules – rules that had been in force since the Commission's first meeting. The Chairman's coalition voted to reduce the number of votes required to forward a report to Congress and to ensure that the "majority" proposal would be included in the report as the "result" of the Commission's work.

Furthermore, the Report drafting process was not transparent, and did not foster serious discussion of the important Commission issues. The Report does not include or summarize any of the testimony provided to the Commission. Nor does the Report include substantive proposals presented to and considered by the Commission, such as those supported by the majority of state and local officials. As a result, the Report does not serve its purpose of providing Congress with all of the information and views obtained by the Commission that will assist in this important national and international debate. In view of this fundamentally flawed process and the stark inconsistency with Congress's mandate to the Commission, we voted against approval of the content of the report.

We are disappointed that the Commission was unable to reach a principled consensus able to attract the two-thirds majority required by the Internet Tax Freedom Act for a valid recommendation to Congress. There was a significant effort to do so, and the Administration worked hard to be an honest broker and a catalyst throughout this process to try to achieve a balance between the interests of technology, the needs of state and local governments, and the continued viability of traditional retailers, both large and small.

In these discussions, the primary challenge that could not be overcome was determining what should happen while the States simplify their sales and use tax systems, specifically, whether Internet sales should be granted additional tax exemptions. This would have involved changing the "nexus" rules the Supreme Court put in place – rules that have worked very well for electronic commerce since its inception – in such a way as to further restrict state's ability to collect sales taxes that are owed. The States were willing to make concessions regarding those rules as part of an overall compromise, but unfortunately agreement with the Chairman's coalition could not be reached. The Administration's view is that in the absence of an overall compromise regarding sales and use taxes, the current nexus rules should not be changed legislatively.

We will continue to participate in constructive discussion of these issues in the future with state and local officials, representatives from all sectors of the business community, members of Congress, and anyone who in good faith seeks to find solutions to these important and complex issues. We continue to support and believe that there is substantial consensus on the following substantive positions:

1. **No Internet Access Taxes**

The current statutory moratorium on Internet access taxes should be made permanent.

It is critically important to encourage access to the Internet. Because taxes on Internet access would create an obstacle to the access of all Americans to the

Internet, and in turn, their ability to participate in electronic commerce, these taxes should be prohibited permanently.

2. <u>No Multiple and Discriminatory Taxes</u>

The current statutory moratorium on multiple and discriminatory taxes should be extended.

Multiple or discriminatory taxes on electronic commerce plainly would hinder its development. This existing statutory moratorium should be extended, and final protections against such taxes should be crafted after the States develop simplified sales tax systems.

3. <u>Simplification and Reformation of State and Local Taxes on Telecommunications</u>

States and local governments should work expeditiously, in conjunction with the private sector to simplify and reform these taxes. The goal of these reforms should be neutrality in taxation of telecommunications as compared to other sectors as well as neutrality in taxation of providers of similar telecommunications services.

This complex web of taxes is in large part a relic of the time when telecommunications services were a regulated monopoly and when taxes on these services were passed on to consumers through the regulated rate structure. Today, telecommunications on all levels have moved from regulated monopoly to competitive markets, and the line between telecommunications and other types of services becomes less clear every day. State and local governments have recognized the pressing need for reform in this area. We believe that these governments, working in cooperation with businesses and consumers, can accomplish this goal.

4. <u>Simplification of State and Local Sales and Use Taxes</u>

States and localities should develop a simplified sales and use tax system within two years. During that time, the current rules governing this area, which were established by the Supreme Court, should remain unchanged.

While this simplified system is being developed, States and localities should engage in a dialogue with businesses and consumers to address the complex and difficult issues regarding the application of these taxes to Internet sales. These issues include:

-- **fairness to both Internet businesses and "bricks and mortar" businesses;**

-- **significantly reducing or eliminating the cost to businesses of collecting these**

taxes;

-- **the effect of these taxes on the international competitiveness of U.S. Internet companies;**

-- **whether lower-income Americans are paying, or will be required to pay, an unfair and disproportionate share of state and local sales taxes;**

-- **ensuring protection of consumer privacy; and**

-- **the feasibility of imposing and collecting sales taxes on goods delivered digitally over the Internet (software, music, etc.).**

The application of sales tax laws to Internet transactions raises difficult issues. It is essential that we maintain the vitality of electronic commerce, which is one of the primary drivers of our economy. It also is essential that States and localities have the revenues they need to provide citizens with essential services – such as education, police, fire protection. Addressing this issue is extraordinarily complex for a number of reasons, including the fact that policymakers do not now have all of the information they need. Everyone agrees, however, that simplification is the key. So the States should proceed in developing a model act that produces real and effective simplification, while discussion on the other issues continues. While the model act is being developed, which is estimated to take two years, the current sales and use tax rules, established by the Supreme Court, should remain in place; they plainly have not hindered the growth of electronic commerce. In the event of any change in existing rules governing the application of sales and use taxes to Internet sales, there should be full accountability so that citizens of each State can determine the appropriate consequences of any projected increase in revenue.

5. **Review of the Continued Viability of the Federal Excise Tax on Communications**

Phase out of this tax is a worthy policy objective and should be considered, but must be weighed against other worthy objectives including other proposed tax reductions, and must not be allowed to threaten the important priorities of maintaining fiscal discipline, paying down the national debt, extending the solvency of Medicare and Social Security, and maintaining core government functions such as health care and education.

This tax contributes more than $4 billion in revenue per year and $52 billion over ten years. Because of this substantial budgetary impact, phasing out of the tax cannot be considered in a vacuum, but must be weighed against other important priorities.

6. **No Customs Duties on Electronic Transmissions**

The current moratorium on customs duties on electronic transmissions should be made permanent.

Maintaining the moratorium on customs duties on electronic transmissions is a goal shared both domestically and internationally. There is a broad recognition that imposing customs duties on electronic transmissions would only undermine the ability to attract the investment and technology necessary to build and develop an e-commerce infrastructure.

7. **Fair International Taxation**

Any taxation of electronic commerce should be neutral, nondiscriminatory, simple, certain, fair and flexible.

Regarding international taxation of electronic commerce, our view is that any taxation of electronic commerce should be neutral and non-discriminatory. We must continue to work within the Organization for Economic Cooperation and Development (OECD) to agree on tax rules based on the principle of neutrality and other core principles, such as simplicity, certainty and fairness. We must also continue to work with non-OECD member countries. Global electronic commerce should not be impeded by globally inconsistent tax treatment and thus a global consensus must be reached regarding appropriate taxation.

Again, we should note that there was agreement within the Commission on some important issues. Most, if not all, Commissioners agreed that there should be no taxes on Internet access and that the current temporary moratorium on multiple and discriminatory taxes should be extended. There was also consensus around the handling of international tax and tariff issues, and around the principle that States should simplify their complicated sales tax and telecommunications tax systems. It is unfortunate that the Commission was not able to reach a principled consensus on other fundamental issues. It is also unfortunate that the final Report does not accurately represent the deliberations and results of the Commission, and therefore does not further the important national and international dialogue necessary for resolution of complex electronic commerce issues.

As the Commission process ends, the Administration looks forward to participating in constructive discussions with representatives from all sectors of the business community, members of Congress, state and local officials, and anyone who in good faith seeks to find solutions to these important and complex issues.

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DEPARTMENT OF THE TREASURY

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UNDER SECRETARY FOR ENFORCEMENT JAMES E. JOHNSON BEFORE THE ANNUAL LEGISLATIVE/REGULATORY CONFERENCE OF THE NATIONAL BANKERS ASSOCIATION AND THE AMERICAN LEAGUE OF FINANCIAL INSTITUTIONS
MARCH 30, 2000

Thank you, Chairman *[Ignacio]* Urabazo *[National Bankers Association]* for that generous introduction. Thanks as well to President *[Norma]* Hart for the invitation to speak with you about the redesigned ten and five dollar notes.

To the distinguished officers, and to each of you -- trailblazers in a highly competitive industry,-- good afternoon.

It is a special privilege to participate in the Annual Legislative/Regulatory Conference of the National Bankers Association and the American League of Financial Institutions. our organizations in many respects reflect a new breed of pioneers.

Two thirds of U.S. notes circulate abroad. As the most widely used currency in the world, our notes are naturally the most likely to be counterfeited. The upcoming issuance of the new ten and five dollar notes; as well as the issuance of the $20 bill in September 1998; the $50 bill in October 1997; and the $100 bill in March 1996 are key components of our ongoing efforts to maintain the security of the Nation's currency.

The Federal Reserve System and the Treasury Department have spent a significant portion of time the past four years highlighting these new dollar notes as part of our worldwide public education campaign.

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We have worked hard to ensure that the people who use our currency, depend on our currency, and trust our currency, know about the new series of notes and how to verify their authenticity. We do not want anyone caught off guard when issued new currency by a bank teller or grocery clerk for the first time.

And because the $10 and $5 notes are widely used in many types of vending and other machines that disperse currency, we are working closely with manufacturers and distributors of these devices to ensure a smooth transition.

As the old ten and five dollar notes pass through the Federal Reserve Banks, we will replace them with the new notes. The United States has never recalled its currency. We will not do so now. The old tens and fives will simply circulate alongside the new ones.

And both will continue to be legal tender. Over time, the newer notes will become the predominant ones in circulation.

The redesigned ten dollar and five dollar bills, like the hundred, fifty, and twenty dollars before them -- are the collective works of artisans and economists.

Over 120 features were submitted for evaluation and testing by the New Currency and Design Task Force. This task force consisted of representatives from the Treasury Department, the Federal Reserve System, the U.S. Secret Service, and the Bureau of Engraving and Printing.

In addition, the Task Force reviewed features in modern world currencies as well as features recommended in earlier studies by the National Academy of Science.

Criteria included impact on security, proven reliability, ability to be manufactured in large qualities, and durability over time.

Our goal is to make our money more secure against the opportunities that emerging technologies, such as high tech scanners and copiers, provide for would be counterfeiters. While the Secretary of the Treasury has the authority to change the design and security features, Congress was kept informed throughout the redesign process.

The public is the first line of defense against counterfeiting. It is essential that people recognize and understand the new and modified security features in the new notes to deter counterfeiting.

Like the other redesigned notes, the new $10 and $5 notes include a large dark numeral on a light background on the back of the note that makes it easier for people with low vision to identify the denomination.

Other features include: a larger slightly off-center portrait; a watermark depicting the same historical figure as the engraved portrait; fine-lining printing patterns in the background of the portrait and the picture on the back; and on the $10 note a color shifting ink that alternates between green and black when viewed at different angles. The $5 note does not contain the color shifting ink.

Both notes contain a polymer thread embedded in the paper uniquely positioned for easy authentication. With the $10 note. the thread is to the right of the portrait and will glow orange under ultraviolet light. In the $5 bill. the thread is left of the portrait and will glow blue when held under an ultraviolet light.

In addition. the thread on the $10 note reads USA TEN and a flag can be seen on both sides when held up to a light source. The number "10" appears in the star field of the flag.

The $5 note contains the words USA FIVE and a flag can also be seen from both sides of the note when held up to a bright light. The number "5" appears in the star field.

The new security features are working. Counterfeiting is being detected more and more at the retail level because the security features are easy to identify.

As you know better than most. public confidence in the currency is very basic to a healthy economy. The Federal Reserve System and the U.S. Secret Service diligently work together to protect the integrity of the currency in circulation from the intrusion of counterfeiting technology.

Thus far. we have been very successful. Only nine notes in a million turn out to be counterfeit. This means that most people will never see a counterfeit note. But we can not be complacent. We are committed to preserving the integrity of United States currency. As technology changes. we are determined to keep up.

It is essential that we stay ahead of the technology and make every effort to ensure that people here and around the world continue to have the utmost confidence in our currency.

Thank you for your attention and for the very important role that you play on a daily basis in ensuring the integrity of that currency.

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