INTRODUCTION

TREASURY ACCOMPLISHMENTS AND GOALS/STATE OF THE UNION

93-12093

DEPARTMENT OF THE TREASURY
WASHINGTON

April 12, 1993

MEMORANDUM FOR SECRETARY BENTSEN

FROM: Philip Diehl PD

SUBJECT: Report on the First 100 Days

Attached is your report to the White House on accomplishments by the Treasury Department during the first hundred days of the Clinton Administration. It is drawn from reports submitted by the Assistant Secretaries and Bureau heads, and I submitted it to the White House during your absence in Tokyo.

Faxed to ESK
4/13/93

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April 12, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Lloyd Bentsen

SUBJECT: Treasury Department 100-day Report

This memorandum provides you with a summary of major Treasury Department accomplishments in the first 100 days of your administration.

LEGISLATIVE ACCOMPLISHMENTS

Preparing and Selling the President's Economic Plan

The Treasury Department, as the Administration's lead department on economic policy, has crafted the details of the President's economic plan and is working to broaden support both in Congress and in the business community.

Treasury's Office of Economic Policy assisted the Secretary in preparation of his testimony to Congress on the necessity and effectiveness of the President's plan. The Secretary testified before the House and Senate Budget Committees, the House Committee on Ways and Means, and the Senate Finance Committee. The budget resolution was subsequently passed with some modifications, but it encompasses the heart of the President's long-term plan to restore sustainable growth to the American economy.

Treasury's Office of Tax Policy led the development of the revenue proposals contained in the President's economic plan. It also published the "Summary of the Administration's Revenue Proposals" (the Green Book) and the "Supplement of the Administration's Revenue Proposals," both of basic importance in explaining the Administration's revenue raisers to the Congress and the public.

The Secretary's Office and the Office of Public Liaison are working to garner business support for the plan. At this time, some 100 companies and business associations have endorsed the President's economic package, including more than a dozen oil and gas companies whose support was obtained by Treasury.

Extending the Debt Limit

The Secretary submitted to the Congress legislation drafted by the Office of Domestic Finance to raise the statutory ceiling on debt. Despite the history of debt-limit extensions as occasions for legislative grand-standing, a debt limit extension was quietly passed before Congress adjourned for the Easter recess.

Health Care Initiative

The Offices of Tax Policy and Economic Policy are both assisting in the development of the Administration's health care initiative.

Community Reinvestment Act

The Office of the Comptroller of the Currency (OCC) has chaired, working with the White House and other departments and agencies, an effort to revise the Community Reinvestment Act (CRA). A program to revise CRA has been agreed upon, pending Presidential approval. If adopted, the program will be a major step toward fulfilling the President's campaign promise that CRA should mean performance, not paperwork.

Nominations & Confirmations

Four Presidential appointees to Senate-confirmed posts have been confirmed by the Senate as of April 12:

Lloyd Bentsen - Secretary of Treasury
Roger Altman - Deputy Secretary
Larry Summers - Under Secretary for International Affairs
Eugene Ludwig - Comptroller of the Currency

Nominating papers for four more Treasury appointments have been sent to the Senate by the White House, but the Senate has yet to act on the nominations:

Frank Newman for Under Secretary for Domestic Finance
Ron Noble for Assistant Secretary for Enforcement
Les Samuels for Assistant Secretary for Tax Policy
Jack DeVore for Assistant Secretary for Public Affairs

The President has announced his intention to nominate seven more Treasury officials, nominating papers have not yet been drafted:

Alicia Munnell for Assistant Secretary for Economic Policy
Michael Levy for Assistant Secretary for Legislative Affairs
Margaret Milner Richardson for Commissioner of the Internal Revenue Service
Jean Hanson for General Counsel

Jeff Shafer for Assistant Secretary for International Affairs
George Weisse for Commissioner of the Customs Service
George Munoz for Assistant Secretary for Management

REGULATORY ACCOMPLISHMENTS

Attacking the Credit Crunch

Treasury Department and the OCC are leading a joint effort with the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, and the Federal Reserve System to increase credit availability without undermining public faith in lending institutions. This initiative is expressly targeted to increase credit available to small and medium-sized businesses and farms -- enterprises that have been particularly hampered by the credit crunch. One key part of this effort has already been implemented, and several other actions should take place during April.

The *Interagency Policy on Documentation for Loans to Small and Medium-sized Businesses and Farms* has already been issued. This policy will allow highly rated banks that are at least adequately capitalized to make loans to small and medium-sized businesses and farms with less documentation than previously required. Careful limits on the use of this policy are designed to reduce the red tape and paper work drag on such lending without undermining the soundness of participating institutions.

The OCC and the other bank regulatory agencies plan to take additional actions by the end of April:

1. *Interagency Policy on Definition and Application of "other Assets Especially Mentioned."* The agencies will provide additional guidance to bank examiners to assure that their loan review procedures do not inadvertently discourage bank lending by implying inappropriate criticism of loans banks have made.

2. *Proposed Rule on real Estate Appraisals.* The agencies will propose to raise the threshold requirements for real estate appraisals. This rule will decrease banks' regulatory burden and increase bank real estate lending by reducing the number of transactions for which licensed or certified appraisals will be required.

3. *Proposed Rule on Other Real Estate Owned.* The OCC will propose to update its rule to include new financing arrangements in connection with the sale of bank-owned real estate. This rule will expand the market for bank-owned real estate.

4. *Interagency Policy on Valuing Real Estate.* The agencies will work with their examiners to ensure that loans secured by real estate are evaluated in accordance with policies that are based on the borrower's ability to pay over time, rather than on the amount a seller would receive if the property were liquidated.

Resolution Trust Corporation

The Treasury Department is seeking RTC funding and has initiated a reform of the RTC to complete the savings and loan clean-up as soon as possible and at the lowest cost to taxpayers. Secretary Bentsen has established nine administrative reform initiatives to place the RTC on a sound management footing and ensure that it is managed more efficiently and responsible. Deputy Secretary Altman has been appointed as the RTC's interim CEO and will oversee the reform initiatives.

Combatting Discrimination in Lending

The OCC expects to announce by April 16 new procedures for examining national banks for racial and ethnic discrimination in residential lending. Under the new procedures, bank examiners will determine whether a bank's application process for residential loans has produced the same lending decisions for minority applicants as for non-minority applicants with equivalent qualifications. Bank examiners will also determine whether the bank gave equivalent assistance to all potential borrowers during the application process, regardless of race or ethnic origin.

Reducing the Regulatory Burden on Thrifts

In addition to participating in the previously mentioned efforts to combat the credit crunch, the Office of Thrift Supervision has taken several actions to reduce unnecessary regulatory burdens on thrifts.

The *final rule on Savings Association Membership in the Federal Home Loan Bank System* provides that in two years, membership in a Federal Home Loan Bank will no longer be required for state-chartered savings associations. FHLBank membership will remain mandatory for federally chartered savings associations pursuant to statutory requirement, but Congress is urged to consider the issue.

In addition, the OTS has begun to negotiate cooperative agreements with individual state thrift supervisory authorities to reduce the regulatory burden and enhance the effectiveness and efficiency of the regulatory process.

Debt Management

The Department is in the midst of a thorough study of the best maturity mix for Treasury borrowing. Results should be available by May 5 and will inform future debt management by the Department. In addition, Treasury lowered the guaranteed minimum rate on savings bonds from six percent to four percent, saving more than $2 billion in interest costs over the next five years.

Auction Rules for Treasury Securities

The Department's Bureau of Public Debt published a Uniform Offering Circular for the sale of Treasury Marketable Securities on January 31, 1993. The new rules, which went into effect March 1, consolidated into one document the terms and conditions for the sale of marketable Treasury securities which were previously found in a variety of documents. The new rules reinforced the integrity of the auction process by clarifying the relationship between bidders, submitters, and customers; opened the auction to wider participation; and ensured that a single bidder could not receive more than the 35 percent limit for a particular issue of securities.

Transfer Pricing - Customs Service

There is widespread sentiment that some international corporations evade a portion of the tax liability on their U.S. earnings by manipulating the pricing of merchandise exchanged by their U.S. and foreign subsidiaries. This is referred to as the transfer-pricing problem, and it has implications for the competitiveness of U.S. businesses that are disadvantaged by the phenomenon and for revenue collections by the federal government.

To better combat abuses in this area, the Treasury Department's U.S. Customs Service has established a special valuation center which will be responsible for coordinating all appraisement and uniformity issues related to imported merchandise and dissemination of valuation information to the trade community. Customs believes this effort will result in more effective enforcement of revenue-related laws, generate additional revenue, and provide for greater equity in international trading.

Transfer Pricing - IRS

The IRS, with Treasury's Office of Tax Policy, has developed an increased enforcement initiative in the Section 482 transfer pricing area.

Sanctions on Serbia and Montenegro

The Treasury Department's Assistant Secretariat for Enforcement and its Office of Foreign Asset Control have worked closely with the State Department to improve U.S. sanctions on Serbia and Montenegro and implement that aspect of the President's policy on Yugoslavia. They helped draft a United Nations Security Council resolution strengthening the sanctions and applying them to Serb-controlled areas of Bosnia and Croatia. The Office of Foreign Asset Control is also actively working to enforce the sanctions in coordination with other nations.

REINVENTING GOVERNMENT

Restructuring at Treasury's Departmental Offices

The Department is implementing the President's Executive Orders and Directives on reducing perks, cutting payrolls, decreasing administrative expenses, supporting administration-wide policy goals in innovative ways, and providing better service to the public. While progress is still underway, the following changes have already been implemented:

* Each Treasury bureau has been given reduction targets for eliminating at least four percent of its civilian personnel positions over the next two-and-a-half fiscal years, and bureau plans for carrying out the reductions are being developed at an accelerated pace.

* Each Treasury bureau has incorporated into their fiscal year 1994 budgets a three percent reduction in administrative expenses.

* Steps are being taken to cut in half the Department's fleet of executive vehicles.

* Gasoline-powered vehicles in the Departmental Offices are in the process of being replaced with natural gas vehicles.

* Subscription costs are being reduced by eliminating unnecessary newspaper and magazine subscriptions.

Electronic Benefit Transfer

The Treasury Department's Financial Management Service is operating a pilot program that delivers multiple government payments through a Direct Payment Card, used like the automated teller machine (ATM) cards issued by banks. Currently over 5000 recipients in the Houston area use Direct Payment Cards instead of checks to receive benefits such as Social Security, Supplemental Security Income, Railroad Retirement Disabilities and Annuities, and Veterans pensions and disability compensation.

Recipients who have participated in the Electronic Benefits Transfer pilot program overwhelmingly support it, reporting that the plastic access card offers the following advantages over paper: safety and convenience, greater security, lower costs by eliminating check cashing fees, and improved service to benefit recipients. There are an estimated eight million direct federal benefit recipients without bank accounts who could potentially benefit from large-scale adoption of this program.

Downsizing and Streamlining at the Office of Thrift Supervision

By the end of April, the Office of Thrift Supervision (OTS) will have cut agency staff by 3.6 percent since the beginning of the year. In addition, OTS has undertaken an extensive review of several of its functions to improve effectiveness and efficiency.

OTS is also in the process of reducing the amount of office space it leases throughout the United States, saving taxpayers millions of dollars over the remaining terms of the leases.

94-1282

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

December 30, 1993

MEMORANDUM FOR JOHN PODESTA
ASSISTANT TO THE PRESIDENT AND STAFF SECRETARY

FROM: LLOYD BENTSEN LB

SUBJECT: STATE OF THE UNION ADDRESS

Thank you for the opportunity to provide input on the State of the Union Address. Rather than suggest any single theme for the entire speech, let me outline a variety of ideas that might fit into a larger framework. Many of the examples are Treasury related, but I hope the themes and the examples have relevance for the entire government.

Specific Issues:

I have only two specific requests for inclusion in the Address. If we are going to pass legislation to consolidate the four banking regulators, we need to send a strong signal of the Administration's commitment. The proposal is good policy and good politics. I hope that the President would specifically mention this initiative -- perhaps as part of the NPR.

I also hope that the President might express his support for the multilateral development banks (World Bank, IMF, etc.). Congress traditionally cuts the Administration request for funding thus increasing the amount we owe these institutions and reducing our influence. These organizations play a crucial role in implementing Administration policies in Russia, the West Bank and developing nations. They have begun to respond to U.S. calls for reform, but we will only make progress if we meet our financial commitments.

General Themes:

<u>The economic recovery has begun</u>: The President should take credit for improving economic conditions. Deficit reduction has led to lower interest rates which have helped interest-sensitive industries like housing and autos. We're making crucial investments; we're addressing the credit crunch; we're opening markets. The economy is turning around.

<u>The President was elected to implement change and he is fulfilling that promise</u>: He's taking the country in a new direction and even if people don't agree with every one of his

to: ____________________

room: ________ date: ________

Department
of the Treasury

Office of the
Executive Secretary

- OK to autopen
per Josh

- sent to WH
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RDM

room 3413
phone 622-0064

policies, we are all benefitting from an end of gridlock and a flow of new initiatives.

The Balanced Budget Amendment: The vote on the Amendment will be looming. The President should use the Address as an opportunity to express his opposition and offer his alternative -- a goal, another mechanism, or a reiteration of what we have already accomplished. We need to remember that we can't beat something with nothing.

The President is willing to make tough choices: The President should take credit for his actions to date (deficit reduction, 252,000 Federal job reduction, push for NAFTA when many predicted failure) and for his continued commitment (FY 95 budget meets caps, campaign finance reform). We need to remind the Congress and the country that while the President has the ability to build a consensus, he also has the strength to fight for his beliefs.

Health Care: This issue is so fundamental that I assume it will be included. I hope the Address might highlight two facts: first, the debate is now about what kind of reform, not whether we should have reform; and, two, health care reform is essential to our long-term economic security.

The Administration is committed to reducing regulatory burden: The Republicans like to portray Democrats as the party of government regulation and red tape. We should fight this perception (which will only grow as the health care debate intensifies). Examples include what we have done already (credit crunch initiatives, Executive Order on reducing regulations by 50 percent) and what we propose to do (Superfund reform -- which the President mentioned in his first State of the Union, bank regulatory consolidation). Less regulation means more efficiency and lower costs to consumers.

The President has brought honesty back to government finances: For years the President's budgets were dead on arrival in Congress. Partly it was politics, but part of it was that they did not have any credibility: the only number that added up was the deficit which kept on growing. We have presented honest budgets with honest projections. This theme worked well in the first State of the Union and bears repetition.

The President takes the concerns of business seriously: You might consider the following rhetorical questions:

- When was the last time you saw a Democrat stake his career over a free trade agreement the way this President did on NAFTA?

- Who would have guessed that this President would become personally involved in helping U.S. businesses sell their products overseas? Or how about the way we have tackled export controls to let more goods go abroad?

- Which reporters would have thought that this Administration would come up with new Community Reinvestment Act regulations that bankers almost universally support?

- Who would have thought that our first budget would earn the endorsement of major small business organizations? Who would have predicted that the President would meet each week with CEO's and small business leaders?

This Administration knows that the country can't grow without a healthy banking system: That's why our credit availability initiative stripped away needless regulations which hindered credit for small businesses and consumers. We reformed the Community Reinvestment Act to insure credit for undeveloped communities and small towns. And we will continue these efforts. We will urge Congress to pass the Community Development Bank legislation which has now passed the House, and consolidate our four banking agencies, in order to reduce the cost to taxpayers and the burden on banks.

Crime: I know that crime is under consideration for a major portion of the speech and hope that it might include some less glamorous but essential issues like reform of Federal Firearm Licensing (FFL) and computerization of gun records at ATF. An ATF/New York Police Department pilot project that checks the backgrounds of potential gun dealers has demonstrated the importance of licensing reform: before the project began, 90 percent of all dealer applications were granted; since the project began, 90 percent of all applications have been withdrawn or denied.

Promoting prosperity abroad helps underwrite our security and strengthen democracy. Supporting reform in Russia, the FSU and in Eastern Europe, assisting in the reconstruction of the West Bank and Gaza, and preparing the economic foundations of political reconciliation in South Africa are strategic imperatives as much as they are economic imperatives. The International Financial Institutions, now commemorating 50 years of development efforts, will play a critical role in the overall U.S. development assistance strategy to meet these challenges.

Expanding trade is the best engine of growth. With NAFTA, the Uruguay Round, and APEC, this Administration has had the most ambitious and successful trade agenda since World War II. We need to build on this momentum with new regional and multilateral initiatives -- in the rapidly growing regions of Latin America and Asia and in those sectors which represent our economic future -- like financial services, telecommunications, etc. We can only compete if we continue to keep our markets open as we encourage other countries to open their markets to U.S. products.

Our economic future lies increasingly with the emerging markets. Just as we can no longer view our strategic interests through the prism of containment, our foreign policy must now reflect our economic stake in growth and access to the rapidly growing markets of the future. With the Seattle Conference of APEC Heads of State, the APEC Finance Minister's Meeting, and the upcoming Latin Summit, we are creating a new diplomatic architecture -- focussing on our economic interests -- to complement the structures created among the industrial countries of the West in the aftermath of World War II.

Security: The President might reemphasize his commitment to security: health, safety and economic.

96-1577 37

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 22, 1995

MEMORANDUM FOR THE PRESIDENT

THROUGH: SECRETARY ROBERT E. RUBIN R. E. R.

FROM: MICHAEL BARR Michael Barr
SPECIAL ASSISTANT TO THE SECRETARY

SUBJECT: YOUR REQUEST LAST NIGHT FOR ADDITIONAL MATERIAL FOR YOUR STATE OF THE UNION ADDRESS

In your conversation last night with Secretary Rubin, you requested additional information on two subjects for inclusion in your State of the Union address:

1. Access to capital for small businesses, particularly in urban areas.

2. Data showing that the U.S. has accounted for nearly all the job creation in the major industrial nations over the last several years.

1. Access to capital

Dealing with the problems of our cities is critical to the economic and social health of our nation. Your empowerment approach to move inner city residents into the economic mainstream includes investment in human capital and access to financial capital.

We have a real opportunity, given sufficient resources, to take your community development banking initiatives to scale over the next five years. The CDFI Fund provides seed capital and leverages private capital through loans, grants and equity investments to community based banks, credit unions, loan funds, and even new community development venture capital funds. In turn, these entities make loans and investments to help grow small businesses and rebuild neighborhoods, and they help people find jobs and start businesses.

Moreover, we are taking steps to advance micro-enterprise lending, an approach that you and the First Lady have encouraged since your days in Arkansas. Micro-enterprise lending puts money into the hands of low income entrepreneurs who need very small amounts of capital, for example, for a tailor to buy a sewing machine or a mechanic to buy special tools.

It has had remarkable success in low income areas in other countries and might well here too if applied on a broad scale. As you pointed out in your conversation with Secretary Rubin last night, US AID is providing small loans to over 60,000 poor Hondurans. About 89 percent of the borrowers are women entrepreneurs who receive loans of less than $300, to invest in agricultural and other micro-enterprises, and educate their children.

You have asked Treasury to launch a new domestic micro-enterprise project through the CDFI Fund, including the coordination of programs in other parts of the federal government. Moreover, at your direction, the CDFI Fund will soon establish a Presidential awards program for micro-enterprise lending, just as large American corporations now compete for the Baldridge Award.

We recently issued our first call for CDFIs and mainstream financial institutions around the country to apply to the Fund for assistance and incentives, and the response thus far has been encouraging. Unfortunately, so far Congress has only provided $50 million for the CDFI Fund (in the rescission package), and they have zeroed it out in this year's budget.

The themes embodied in capital access for community development -- locally-driven partnerships with the private sector, entrepreneurship, jobs and economic opportunity -- are a perfect foil to the Congressional majority's efforts to dismantle both human capital investments and economic opportunity programs essential to rebuilding these communities.

Moreover, you could use your address to challenge all Americans to do their part. In helping to rebuild our nation's communities, no one can afford to sit by the sidelines. That fact has driven remarkable progress in the last decade, as community-based development has brought homes, businesses, jobs, and renewed hope to neighborhoods across the country. Businesses and banks, nonprofit intermediaries and foundations, community groups and civic organizations, state, local and federal government, have joined together to make it happen.

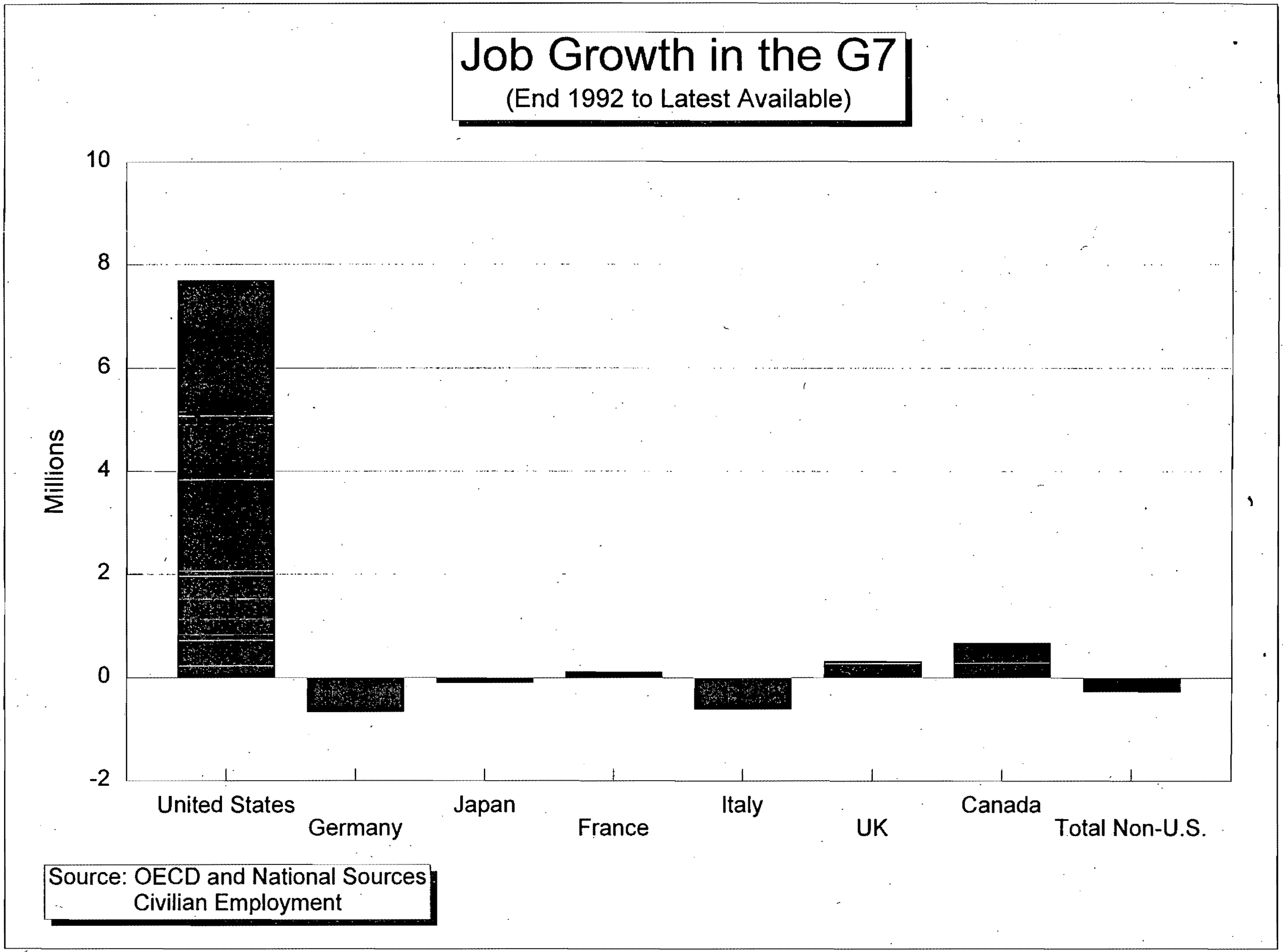
2. Job Creation

In Secretary Rubin's memorandum to you of January 16, he noted that the United States has accounted for nearly all the job creation in the major industrial nations over the last several years. Last night, you asked Secretary Rubin for additional information.

During the last three years, the United States has created 7.7 million new jobs, while the rest of the G-7 combined has seen a net job loss of around 300,000.

Among the G-7, only Canada comes close in showing the rates of job growth that we have enjoyed in the United States. Much of Europe has seen job losses over this period and continues to struggle with high structural unemployment rates.

cc: Bruce Reed
Don Baer



Job Growth in the G7
(End 1992 to Latest Available)
10
8
6
4
2
0
-2
Millions
United States
Germany
Japan
France
Italy
UK
Canada
Total Non-U.S.
Source: OECD and National Sources
Civilian Employment

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FAX TRANSMITTAL SHEET

DATE: 1/22/96

NUMBER OF SHEETS TO FOLLOW: 3

TO: Don Baer

ADDRESSEE'S FAX #: 456-5709

ADDRESSEE'S CONFIRMATION #:

FROM: Michael Barr

SENDER'S FAX #: 202-622-0073

SENDER'S CONFIRMATION #: 202-622-~~1700~~ 0216

SPECIAL INSTRUCTIONS/COMMENTS:

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FAX TRANSMITTAL SHEET

DATE: 1/22/96

NUMBER OF SHEETS TO FOLLOW: 3

TO: Bruce Reed

ADDRESSEE'S FAX #: 456-5557

ADDRESSEE'S CONFIRMATION #:

FROM: Michael Barr

SENDER'S FAX #: 202-622-0073

SENDER'S CONFIRMATION #: 202-622-~~1700~~ 0016

SPECIAL INSTRUCTIONS/COMMENTS:

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*** ACTIVITY REPORT ***
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TRANSMISSION OK

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CONNECTION ID	
START TIME	01/22 14:26
USAGE TIME	01'49
PAGES	4
RESULT	OK

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*** ACTIVITY REPORT ***
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TRANSMISSION OK

TX/RX NO.	3079
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CONNECTION ID	WHITE HOUSE
START TIME	01/22 14:29
USAGE TIME	01'47
PAGES	5
RESULT	OK

96-154098

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 16, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY ROBERT E. RUBIN RER

SUBJECT: **Your State of the Union Address**

Introduction

The following is not a comprehensive recommendation, but covers instead three areas:

* first, policy and rhetoric with respect to business;
* second, the economy, urban issues and taxes; and
* third, law enforcement.

I. Addressing Business in the State of the Union

Addressing the role of business in the President's vision for 21st century America requires striking the right balance between recognizing that it is because American businesses have been uniquely willing to respond to a changing world by innovating, investing, and restructuring that America's economic position is today so strong (a prosperous 21st century America requires dynamic flexible companies), while recognizing that mass layoffs are a source of insecurity and concern and the benefits of prosperity are not being shared by all.

Pitfall

I believe it is very important that the State of the Union avoid rhetoric that will appear anti-business, and I have little doubt that in the context of a Democratic President's State of the Union Address, the term "corporate responsibility" is likely to be seen this way. Such rhetoric could fuel perceptions that your Administration has reversed its earlier constructive attitude toward the competitiveness of American business and the American economy and is reverting to what is perceived as the more traditional Democratic position of being anti-business and too willing to sacrifice growth for other objectives.

It would be very unsound -- as a matter of policy -- in the name of "corporate responsibility" to call into question the basic premise that corporations should seek to maximize profits within regulatory constraints set by government. Notions that corporations should serve many constituencies or stakeholders easily lead to non-competitive companies, fewer jobs, and lower standards of living. European experience is that such approaches often benefit workers only in the short run, and actually raise unemployment in the long run. Europe, as you know, has persistent 10+ percent unemployment, virtually no job creation and slow growth.

The truth with respect to the AT&T lay-offs is that you'd have to know a lot more than we do to know whether this was right for the long-run economy, but I think it is clear that prior to recent years American industry's sin was complacency, empire building, and inefficiency, and that the U.S. paid a big price in terms of lost market share and lost jobs.

A response to the AT&T situation, and corporate lay-offs more generally, consistent with where you have been on the global and technology dynamism of the new economy, is to go back to the budget debate and education, training, etc. You have on other occasions said that restriction and protectionism are answers that simply won't work, and I would say the same of most ideas regarding additional burdens via "corporate responsibility". The rest of this section of this memo continues to address those questions.

An Approach

These considerations suggest a rhetorical approach to business that challenges them to succeed on their own terms because this will create jobs and drive the economy forward, and emphasizes the role of government in enabling all to share in the success that a successful economy and successful businesses bring through education, training, and the like. They suggest avoiding a rhetorical posture that will look old-Democrat or anti-business. Here is some language you might consider:

> "I challenge American business to invest in its people, as well as plant and equipment, and to be innovative in creating competitive companies for the 21st century. Only in this way can we assure that businesses will be able to succeed in a rapidly changing global economy and that the American economy will be able to create high-wage jobs."

You might add additional language advocating that the focus of business should be on long-term maximization, not short-term.

The rest of this section on "approach" is a paraphrase of what you could say to complete this message.

Each year it is becoming more and more clear what it takes for companies to succeed in the new economy. The best companies take the long view -- they recognize the need to keep investing, even when the payoffs are not immediate. The best companies recognize that their people are their most important resource -- they provide them with the on-going training and the security that allows them to realize their full potential.

America has created 7.5 million jobs in the last three years, nearly 7.5 million more than Europe and Japan combined. An important reason is the strength of our businesses and their willingness to embrace change. We have to keep moving forward, but we must also make sure that no one is left behind.

For this reason, education and training are profoundly important. Our young people must learn not only skills that will land them jobs, but, even more importantly, they must learn how to keep learning because, increasingly, people will do many different things during their working lives.

While the pace of economic change may accelerate, we must strive to make sure that, whatever happens, working families are secure. That is why I am working to ensure that workers who lose their jobs do not lose their pension benefits or their health insurance. And that is why we have worked so hard to ensure that every American can send their son or daughter to college, no matter what their economic circumstances.

Regulation and Community Involvement

Optimal environmental regulation, community involvement, and the like involve a judgment that there are other benefits which have greater value than the profit being sacrificed. This is a complicated area (so-called externalities), involving cost/benefit trade-offs, and it can in substance easily become a slippery slope toward a non-competitive economy. The area of externalities would include the substance and rhetoric of "corporate responsibility", and I do not think you should get involved in either for the State of the Union, for the reason already discussed.

II. The Economy, Urban Issues and Taxes

The Economy

During the last three years, we have probably had the best economic conditions in several decades, taking into account all factors, e.g., growth in excess of 3 percent, inflation under 3 percent, unemployment rate falling from 7.1 percent to 5.6 percent, over 7.5 million new jobs, the deficit falling by roughly 50 percent, and the list goes on. The comparison is particularly stark when contrasted with the preceding four years or the circumstances of the other principal industrial nations.

I think our tone on the economy should be positive, and while many factors were involved, we should take credit by saying that the key and decisive factor was your Deficit Reduction Program of 1993, which lowered interest rates that, in turn, both drove and sustained recovery.

An international comparison provides an interesting way of demonstrating our economic success over the last three years: the U.S. has the lowest budget deficit compared to the total economy of any major industrial country; the U.S. has accounted for nearly all the job creation in the major industrial nations over the last several years; the U.S. economy has grown more rapidly over the last three years than those of Europe and Japan; and U.S. companies are competitive on a global basis for the first time in decades.

The challenge is to maintain economic health in the years and decades ahead. I would suggest a four-fold approach that is consistent with where we have been, although obviously other important areas could be added, like regulatory reform or, in the Republicans' view, tax cuts and tax reform.

(1) continuing fiscal discipline by going to a balanced budget;

(2) public investment in education, training, the environment and other critical areas; maintaining our social compact in Medicare and Medicaid; and a renewed emphasis on savings and thrift to help families save for retirement and assist the nation in funding private investment (Treasury can provide useful ideas in this area);

(3) international engagement and leadership with respect to opening markets, promoting development and growth in the developing world, and dealing with crises in the international markets that vitally affect our interests; and

(4) the economic equivalent of "do no harm", e.g., do not shut down the government or threaten the country's creditworthiness.

You could discuss increased income disparity as a threat to both our economy and our social fabric, and go back to your approach in the budget debate, e.g., investment in education and skills, health care, and other relevant areas. This can be done while avoiding class warfare language or criticism of economic success, by discussing the problem, the actions needed to improve the prospects of all Americans, and the fairness of the most affluent bearing a disproportionate share of the cost. A particular suggestion that I know others have made is to propose enabling all young Americans to participate in the new technological and global economy by wiring all of America's public schools by the end of the decade for the internet, as suggested by your National Information Infrastructure Advisory Group. This is analogous to Franklin Roosevelt bringing the benefits of electricity to rural America through the Rural Electrification Administration.

Urban Issues

The inner cities are not a politically popular subject, but you might consider the possibility of addressing the importance of our cities, and therefore our inner cities, to the future of the economy for all Americans. Again, that discussion could lead right back to the budget debate, and to your approach of empowerment to move the residents of the inner cities into the economic mainstream, as opposed to transfer payments. The Administration can point to many actions in this area -- increasing the EITC; increasing headstart; enactment of enterprise zones; creation and funding of CDFIs; fighting to save the Community Reinvestment Act and the low-income housing tax credit; and a pending project, microenterprise lending, where Treasury is borrowing an idea earlier articulated on the international front by the First Lady in Beijing.

You are now attempting to preserve requisite levels of support for investment in human capital and for providing access to financial capital, in accord with your view that the best social program is a job, and that the final answer to despair and decline is economic opportunity and personal empowerment.

Taxes

There is widespread dissatisfaction with our tax system, but no one has come up with an approach that seems better than our existing system. If you feel a need to address taxes, there are some specific reform proposals which we have developed, as in pensions, estate taxes, and telephonic filing, to improve the existing system; and you could address the difference in your approach to tax cuts and their approach.

III. Enforcement

I think we are extremely well positioned with respect to law enforcement. Having spent a lot of time this year with Republican Congressmen as we worked our way through Waco and other matters, I think they are fairly nervous about our position versus theirs on this issue. We have been in favor of the Brady bill, assault weapon ban, the crime bill, and supporting law enforcement, while they have been seeking to roll back the Brady bill and the assault weapon ban and, in the effort to do that, have tended to undermine law enforcement more generally. I have spoken at a number of large gatherings of local law enforcement officials, and my impression is that you and the Administration have enormous support among these people.

In this area, we have two ideas -- one substantive, one rhetorical. Substantively, our policy staff in the Enforcement Office at Treasury is designing a program that deals specifically with kids and guns. It can be made available as a policy proposal for your address. Rhetorically, we have seen the dangers of extremism and the benefits of supporting law enforcement in the last several years. Treasury lost eight members of its family in the Oklahoma City bombing, and our enforcement people, particularly ATF, Customs and IRS, are repeatedly under threat of violence. At the same time, those who have stood with law enforcement and fought, as you have fought, to give Americans new tools in fighting crime (Brady, the assault weapon ban, 100,000 cops, etc.) see the results in declining crime statistics across the country. A statement about standing with law enforcement on behalf of public safety and against crime and extremism could put the opponents on the defensive.

Conclusion

An interesting question is where the edge in the speech should be, i.e., who should be the villains of the piece. My two nominees would be those who oppose your forward-looking approach on the economic issues that are encompassed in the budget and those who advocate protectionism and economic nationalism. I think all of this can be framed in the context of competitiveness and success in the global economy. Once again, I would avoid anything that can be interpreted as critical of economic success or anti-business.

1996-SE-011765

The Deputy Secretary of the Treasury

ACTION

December 13, 1996

NOTE TO: SECRETARY RUBIN

FROM: LARRY SUMMERS

I think this article should go to the President -- with whichever cover version you prefer.

Room 3326 622-1080

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

December 13, 1996

MEMORANDUM TO THE PRESIDENT

THROUGH: ROBERT RUBIN

FROM: LAWRENCE SUMMERS

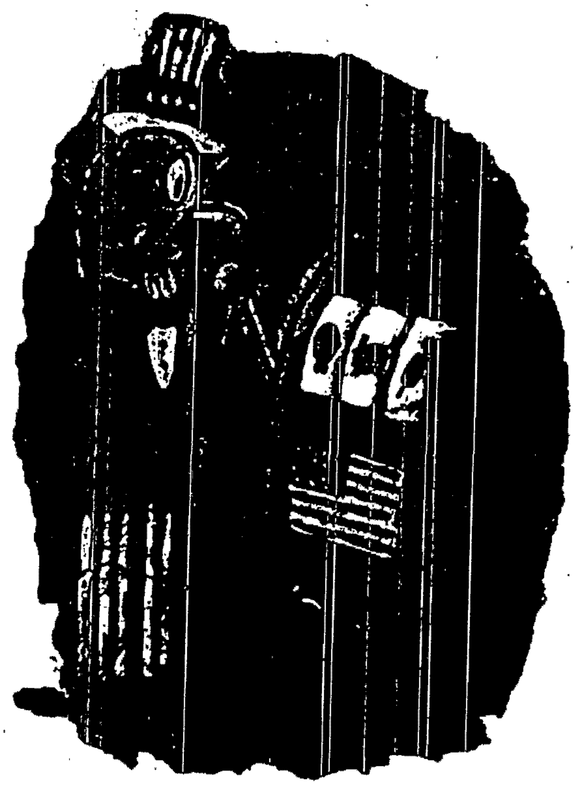
SUBJECT: "Riverboat Gambling With Government"

In the attached article, Richard Darman makes a very important point that relates to the issue of a lasting legacy. Conducting serious research-based evaluations of existing federal programs while working with governors on policy innovations at the state level could provide you a legacy of policy initiatives based on solid evidence of success.

This perspective seems particularly relevant as we consider proposals for job creation for welfare recipients.

Riverboat Gambling With Government

The scandal is not that Washington has failed to pursue bold domestic visions. The scandal is that Washington rolls the dice before it knows what it's doing. By Richard Darman



IN THE STATE OF THE UNION ADDRESS THAT KICKED OFF his re-election campaign, President Clinton declared, "The era of Big Government is over." Now, as he ponders his second inaugural, he is undoubtedly aware of three contradictions. Together, they frame a choice: whether to continue or end a scandal that is far less visible than recent titillations — but ultimately more important.

The first of these contradictions is that, in a supposedly anti-Government era, the pro-Government candidate won. He promised to use Government to help all Americans achieve the Dream — and proposed modest initiatives as tokens of concern and commitment. Therein lies the second contradiction. While tokens helped win the President his chance for a big place in history, the very modesty of his initiatives would deny it to him. As an experienced analyst of public policy, he must know that tokenism cannot solve America's major domestic problems. In a time of scarce resources, bold new approaches and technologies are required.

But that suggests a third contradiction. Though the President has assumed responsibility for using Government, neither he — nor any other would-be leader — can honestly and persuasively claim that his domestic program would meet America's major challenges. There is, quite simply, too little reliable empirical evidence to suggest that any such program would work. It is this missing evidence that America should recognize as a national scandal.

In the decades since President Kennedy raised the Clinton generation's hopes, there has been no lack of bold plans. The country has tried the

Richard Darman served as the director of the Office of Management and Budget and a member of President Bush's Cabinet from 1989 to 1993. He is the author of "Who's in Control?" (Simon & Schuster).

ILLUSTRATION BY GARY BASEMAN

Great Society and the Reagan Revolution. It has debated Nixon's New American Revolution, the Clinton health plan and the Gingrich Contract With America. It has witnessed several "wars" on poverty, crime and drugs. The Government has spent trillions trying to solve domestic problems. Yet the problems remain, and some have worsened.

It is important to be clear: The scandal is not that Government has failed. The scandal is that so little has been learned from our trials.

As a society, we have been guilty of what can fairly be termed policy corruption. In pursuit of bold visions, we have launched one risky scheme after another without anything like responsible evidence. In his 1969 book, "Maximum Feasible Misunderstanding," Daniel Patrick Moynihan said of the Great Society's Community Action Program, "The Government did not know what it was doing." A major transfer of power was legislated. Yet few officials knew how it would work or what to expect. They bet the system on a hunch, and the bet did not pay. Similarly, in 1981, the Senate Republican leader, Howard Baker, described the bold Reagan tax cut as a "riverboat gamble." Though there was evidence that tax cuts could stimulate the economy, there was no serious work to support the excessive free-lunch claims of supply-side advocates. Fiscal balance was sacrificed to a half-informed hope.

Combining the Moynihan and Baker characterizations, one gets an image of policy making that amounts to ignorant gambling. Although highly unflattering, it must seem painfully familiar to anyone with experience in the development of bold Federal policy initiatives. When grand domestic visions are in the making, rolling the dice is the norm.

The problem is not the visions. Americans across the political spectrum want to improve education, reduce violence, eliminate substance abuse, strengthen families, restore traditional values and increase opportunity for achieving the Dream. The problem is that we know little more now than in the 60's about how, on a large scale, to achieve these shared objectives. And the reason is a continuing surrender to ignorance. Major public-policy initiatives are routinely advanced, but rarely do we organize to evaluate what works. We thus allow politicians to mislead us. Then we act like helpless victims.

The public shows outrage at conventional corruption and interest in investigations that range from the current Speaker of the House's use of an 800 phone number to the First Lady's possible participation in a land scam. Yet we show a remarkable tolerance for policy corruption — the effects of which waste billions of dollars and immeasurable human potential. Echoing a refrain from the 60's, one might ask, "When will we ever learn?"

In much of life, it is common to learn through systematic evaluation of trials and errors. Successful private corporations spend a substantial share of their revenue on evaluative research to improve their products and performance. They tend to proceed on an orderly basis from paper analysis to pilot testing to larger scale trials before they bet the company on a new idea. So, too, do some of the more technically oriented parts of the Federal Government. But when it comes to large-scale domestic policy, we don't structure ways to learn before we leap.

We started to do so in the late 60's and early 70's. The Federal Government set aside funds from major social programs for evaluation of their effects. An early national study of the popular Head Start program, for example, compared first, second and third graders who had had Head Start with comparable children who had not. It reached an unpopular conclusion, finding little sustained difference between the two groups. That study was followed by others that examined variations in Head Start treatments and the related Follow Through program, seeking to determine which variations might do their intended job. Technical staffs within the domestic agencies were charged to commission and oversee similar studies of most of the major Federal spending programs. For a brief period, evaluation became the rage.

The Government also sponsored experiments ranging from loosely structured model cities to more systematic trials of particular policy ideas. A multi-city test of housing allowances was designed to examine effects on housing demand and supply. In New Jersey, an ambitious test of welfare reform examined work incentives and the negative income tax. Other experiments were structured to test innovative approaches to remedial education, job training, health insurance and school choice. Importantly, these experiments were designed to test behavior and results outside of the ivory tower, at substantial scale, in the real world.

Unfortunately, however, most of these experimental efforts were abandoned before they could deliver — often before they were fully financed. Given the enormous stakes, one might well wonder why. Why have we not organized a sustained effort to learn?

One answer is ideology, which showed itself in the 80's. When the legitimacy of a governmental role is denied, there is little interest in improving it. But antipathy toward serious policy research goes beyond ideology. America is an impatient culture, and responsible research takes time. When someone seems to have a "cure," it is wanted everywhere immediately. The idea of first systematically testing it can seem defeatist, immoral or threatening to its enthusiasts.

Further, our populist culture is skeptical of "experts" and fearful of social engineering. Giving power to the pointy heads is understandably less appealing than power to the people. And even among experts there are doubts about policy analysis. Respect for individual rights puts limits on experimentation, creating problems for research methodology. These are expensive to address. In the competition for resources, immediate needs often seem more compelling. The future is shortchanged.

What, then, might be done by a President interested in boldness but mindful of our ignorance? He could advance a plan to end the era of policy corruption. Instead of trivial tokens or new Federal programs launched at full scale, he could initiate a set of bold research trials. They could focus on alternative major policy initiatives. In education, experiments might create a serious market test for vouchers, while others might accelerate the development of different types of charter schools. To reverse urban decomposition, various types of enterprise zones might be financed, combining tax incentives and infrastructure investment with innovative approaches to training, education and the reduction of drug abuse and crime. And so it might go, down a short list of America's top domestic-policy concerns.

With the governors, the President could take advantage of decentralization and the natural variation offered by "states as laboratories." Together, they could foster a constructive excitement about innovation — while setting aside the funds to evaluate trials systematically and honestly. To assure objectivity and accommodate anti-Federal spirit, they might establish a nonpartisan entity — under joint control — to contract with private firms and nonprofit organizations for the necessary evaluation and research. Though large-scale problems would not be solved immediately, pilot tests would proliferate, and through evaluation of them, learning would grow.

But what, then, of the President's place in history? The benefit of serious policy research accrues to future politicians and citizens. That is why it has few current advocates and earns few current accolades. If this should lead the President to hesitate, he is young enough to console himself with this thought: At some point in the 21st century, he might witness the fruit of his research initiative. It could serve as a bridge from an era of policy corruption to one in which policies might be advanced responsibly — not with a roll of the dice but with meaningful evidence to suggest they would work. Those who helped to produce the evidence might not honestly be able to say that Big Government had disappeared. But they might at least proclaim with integrity, "The era of ignorant gambling with Federal domestic policy is over." ■

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 6, 1997

MEMORANDUM FOR PRESIDENT CLINTON

FROM: Robert E. Rubin R.E.R.

SUBJECT: Treasury Accomplishments and Goals

Treasury is and will continue to be involved in a broad array of activities, from assisting in budget negotiations with Congress to drug interdiction, from strengthening the stability of the international financial system to improving the economic prospects of the poorest, from enforcement of the Brady Law and the Assault Weapons Ban to auctions of government securities, from negotiating international tax treaties abroad to tax legislation and improving the IRS.

This memorandum broadly outlines Treasury's current priorities. Under each priority, there are accomplishments from your first term and specific second term goals in areas where Treasury has the lead responsibility or is significantly involved. We look forward to working with other agencies and the White House in all of these areas.

- **Balance the budget**
- **Enact the President's tax proposals, simplify the Code and improve the IRS**
- **Improve retirement security and increase savings**
- **Maintain U.S. leadership on the issues of the global economy**
- **Help low-income households and economically depressed areas**
- **Modernize the U.S. financial system**
- **Fight financial and other crimes**
- **Continue to build a strong institution**

BALANCE THE BUDGET

As a result of the 1993 deficit reduction program and other economic policies, we have experienced sustained economic growth and significant deficit reduction. We now have a rare, historic moment to adopt revenue and spending measures leading to a balanced budget, which would be particularly important in sustaining favorable economic conditions over the long term in the context of global financial markets that are very heavily focused on fiscal and other financial conditions. We must do everything possible to defeat Congressional efforts to pass a balanced budget amendment which would create the possibility of seriously exacerbating downturns in the economy.

<u>Accomplishments:</u>

- Helped develop and win passage of the deficit reduction package in 1993 which contributed substantially to diminishing deficits and continued economic expansion.

- Changed the maturity mix of Treasury debt to save interest costs.

- Helped defeat the Balanced Budget Amendment in the 104th Congress.

- Provided oversight of a number of privatization projects including the National Petroleum Reserves, Connie Lee and Sallie Mae.

- Helped stand firm against Congress in the Fiscal Year 1996 budget negotiations through government shut-downs and threatened default under the debt limit.

<u>Goals:</u>

- Help negotiate a balanced budget that preserves the Administration's priorities.

- Help defeat a balanced budget amendment.

- Help develop a long-term strategy and process for entitlement reform.

- Work with OMB to develop an agenda and timetable for possible privatizations, complete pending privatizations and privatize significant additional government assets and operations.

- Improve the liability side of the Federal balance sheet to further reduce interest costs.

ENACT THE PRESIDENT'S TAX PROPOSALS, SIMPLIFY THE CODE AND IMPROVE THE IRS

Over the last four years, we have worked to provide targeted tax cuts, simplify the tax system, reduce paperwork burdens, protect the taxpayer and improve the IRS. We must continue on this path. Tax policy is likely to remain a hot-button issue, in the context of both budget negotiations and efforts to restructure the IRS. Also, there are those who have proposed structural tax reform, an immensely complicated issue. While there will be quite a bit of rhetoric around structural tax reform, I do not believe that it will become a serious Congressional possibility, nor should this be an Administration priority. Instead, I believe that we should focus on enacting the President's middle class tax cuts, on tax simplification, and on improving the IRS.

<u>Accomplishments:</u>

- Oversaw passage of the Tax Payer Bill of Rights 2 (TBOR 2) which strengthened the rights of all taxpayers in dealing with the IRS in a reasonable fashion.

- Joined the tax debate in Congress which included the development of coordinated responses to issues such as the Kemp Commission's report on the flat tax.
- Took steps to achieve tax simplification and improve IRS processes.
- Completed bilateral income tax agreements with many countries -- including Canada, France, Sweden, Thailand, and Mexico -- which created more opportunities and improved the competitive position for U.S. companies abroad.

Goals:

- Negotiate the tax provisions of the Administration's budget, including middle class tax cuts.
- Accomplish further tax simplification (e.g., TBOR 3 and tax simplification measures we will propose).
- Achieve major progress in reinventing the IRS to provide better service and improve tax compliance. This includes improved management systems, application of information technology and changes in the organizational structure, including the possibility of making the IRS into a performance-based organization (PBO).
- Complete additional tax treaties.

IMPROVE RETIREMENT SECURITY AND INCREASE SAVINGS

Increasing our national savings rate is key to raising future living standards. Your Administration deserves credit for a quiet transformation of policy on national savings. Deficit reduction, changing the maturity mix of the federal debt structure, pension portability and the introduction of inflation-indexed securities have helped improve the prospects for savings. We must pursue other means of increasing the savings rate and improving the security of retirement savings.

Accomplishments:

- Introduced inflation-indexed securities and conducted a vast marketing effort to educate potential investors for first auction of inflation-indexed notes in January 1997.
- Enacted pension reform to increase pension availability and portability.
- Presented new incentives for savings with the proposed expansion of IRAs.
- Contributed to increased public savings by helping to develop and enact the President's economic plan which brought down the deficit by over 60 percent.

Goals:

- Develop and implement a package of initiatives to increase savings and enhance retirement security, including through IRAs and further pension reform.
- Evaluate the savings bond program and make changes to improve its contribution to increasing private savings, including through the introduction of an indexed savings bond.
- Work with the rest of the Administration to develop a long-term agenda for the reform of the Social Security system.
- Improve the liability side of the federal balance sheet to further reduce interest costs.
- Launch a major public education effort to encourage private savings.

MAINTAIN U.S. LEADERSHIP ON THE ISSUES OF THE GLOBAL ECONOMY

An overriding challenge for the Administration is to prevent the U.S. and other major powers from turning inward and to build support, including support among the American public, for globalism and the prosperity and security it fosters. The stability of the global economy is critically important to U.S. economic, political and security interests, and we need to engage and provide leadership on the issues of the global economy. That includes the issues of opening markets abroad and supporting development in developing and transitional economies around the world, our largest growing export markets. We do this most efficiently and most effectively through the World Bank, the IMF and other international financial institutions. Global leadership also includes dealing with crises that affect the international economic system, such as the one that occurred in Mexico in 1994.

Accomplishments:

- Helped secure passage of GATT and NAFTA.
- Helped encourage and preserve international financial stability, including through the handling of the Mexico crisis.
- Guided international program of support for Russia which led to the stabilization of its economy.
- Through the G-7, brought about during the past two years an appreciation of the dollar and a restoration of U.S. leadership in the international economy.
- Concluded a market-opening agreement with Japan for its financial markets, and established a framework for WTO financial services negotiations.

- Implemented the Halifax agenda to create a truly global capital market with real transparency and safeguards.

- Used U.S. leverage in the multilateral development banks to make them a key tool for addressing global problems such as environmental degradation, illiteracy, poverty and AIDS.

- Worked closely with our G-7 partners in helping to build the foundation for prosperity and political stability in Central Europe, the NIS and the other transition economies. In particular, helped Bosnia lay the fundamental economic groundwork for a stable and lasting peace under the Dayton Accords.

- Created a process for regular consultations with Finance Ministries in Latin America and APEC to strengthen our ties and their commitment to financial soundness and market-based economic policies, including privatization and effective capital markets.
- Strengthened our bilateral economic and financial ties with key countries such as China, Russia and Argentina.

Goals:

- Help to secure fast track authority.

- Seek an IMF quota increase and authorization from Congress on New Arrangements to Borrow, neither of which has any budget outlay impact.

- Seek Congressional support for the multilateral development banks.

- Help organize a successful 1997 G-7 Summit in Denver which significantly furthers an agenda of international cooperation on economic, environmental and law enforcement issues.

- Work with the rest of the Administration to define a new approach to China and Africa.

- Work with the rest of the Administration to maintain constructive relations with key countries and regions, specifically Japan, Russia, Europe, and Latin America to support financial soundness and market-based economic policies, including effective capital markets.

- Maintain a strong dollar consistent with economic fundamentals.

HELP LOW-INCOME HOUSEHOLDS AND ECONOMICALLY DEPRESSED AREAS

Work to use the tax tools and the tools of finance to address the persistence of high levels of poverty and dependency, the social problems associated with that poverty, and the acute economic isolation of large numbers of poor people.

Accomplishments:

- Helped expand the Earned Income Tax Credit which provided tax relief to 15 million working Americans.
- Helped secure a permanent Low Income Housing Tax Credit (LIHC). Through the LIHC, the flow of private investment dollars to rebuild housing expanded helping to create over 60,000 units of affordable housing every year.
- Stood firm against attempts to weaken the Community Reinvestment Act (CRA) and reformed regulations of the CRA which has unleashed significant capital to our inner cities by helping capital flow from mainstream financial institutions.
- Initiated a nationwide network of community development banks with the passage of the Community Development Financial Institutions Fund (CDFI) bill which provides capital to distressed communities across the U.S.
- Worked with others in the Administration on enactment and implementation of Empowerment Zones and Enterprise Communities.
- Assisted the D.C. Government in returning to financial stability by providing financial assistance when market financing was unavailable.

Goals:

- Work with the rest of the Administration to shape the welfare-to-work program to maximize results.
- Maximize Federal efforts to collect delinquent child support through Treasury's funds payments and explore techniques to assure child support.
- Secure Congressional passage of the Brownfields tax credit to encourage the clean up of abandoned industrial properties in economically distressed areas and put them back into productive use.
- Create an initiative to facilitate the development of secondary markets for urban debt.

- Contribute to the effort to make D.C. financially self-sufficient and better able to provide for the needs of its citizens.

- Expand the CDFI program.

MODERNIZE THE U.S. FINANCIAL SYSTEM

Updating the regulatory framework to take into account the evolution of the financial services sector is instrumental to increasing competition and containing threats to financial stability. In addition, the advent of new technology poses fresh challenges to financial regulation and opportunities to expand the delivery of services to those currently outside the system.

Accomplishments:

- Secured passage of interstate banking legislation which made banks more competitive and allowed them to provide better service to their customers.

- Secured the passage of legislation which merged the Bank Insurance Fund with the Savings Association Insurance Fund (SAIF), thus, saving SAIF from its severe undercapitalization and staving off its projected collapse.

- Worked with the rest of the Administration on reviewing and negotiating many of the provisions in the securities law reform legislation passed by the 104th Congress.

- Delivered 425-million federal payments electronically (valued at nearly $700 billion) in 1996 which represented over 50% of all federal payments and thus saved millions of dollars for the government and the banking industry.

- Significantly revised banking regulation, improved access to credit by ending the credit crunch through strengthened economic policies, and promoted credit access for all Americans, substantially increasing the share of mortgage lending going to minorities.

Goals:

- Seek passage of a financial modernization bill to increase competition and efficiency in the U.S. financial services market.

- Develop a sound and coherent e-money policy.

- Prepare to implement the requirement that all Federal payments be made electronically by 1999, including the development and implementation of a policy to facilitate the provision of financial services to those who are currently unbanked.

FIGHT FINANCIAL AND OTHER CRIMES

Treasury will continue to be involved in a broad range of law enforcement issues from firearms to drug interdiction, from protective service to money laundering, and the other roles in its law enforcement mission. Treasury, with roughly 40 percent of the Federal government's law enforcement officers, will be a key player in the Administration's overall crime-fighting efforts and has a particularly important role to play in the area of financial crime.

Accomplishments:

- Helped pass, implement, and vigorously enforce the Brady law, Lautenberg Amendment to the Brady Law, the Crime Bill which included the Assault Weapons Ban, and the Anti-Terrorism Bill.

- Successfully introduced new $100 note after conducting an extensive public education campaign across the world to inform users of American currency that our currency was being redesigned to include advanced counterfeiting deterrence features.

- Increased narcotics seizures and arrests at the Southwest Border and in the Caribbean through expanded border interdiction efforts.

- Conducted investigations into church fires which resulted in a permanent arson database, arson prevention efforts, arrest rates that are double that for arson overall, and new efforts in cooperation with local officials and communities.

- Reached out to our global partners in crime fighting on money laundering, anti-narcotics. Identified international narcotics traffickers and froze their U.S. assets.

- Reviewed and implemented findings of the White House Security Review, the Waco Review, and the Good O' Boys Roundup Review.

- Provided critical law enforcement support in numerous investigations and operations including Olympic Security, and the World Trade Center and Oklahoma City bombings.

Goals:

- Strengthen efforts to fight financial crimes to support broader anti-crime activities and to strengthen international cooperation against money-laundering, organized crime and the trafficking of drugs.

- Accomplish anti-terrorism mission, including through the expanded use of taggants and the creation of a national data repository for explosives and arson incidents.

- Achieve more strategic Customs enforcement at the border to maximize interdiction and the facilitation of trade.

- Upgrade the professionalism and standards of enforcement personnel and procedures, including those associated with key enforcement missions such as anti-terrorism, drug interdiction and protective services.

CONTINUE TO BUILD A STRONG INSTITUTION

Treasury is a strong institution, and one of our principal responsibilities is to maintain and improve Treasury's ability to serve the American people in many ways.

Accomplishments:

- Introduced technology to make Treasury more efficient and improve its service to its customers -- e.g., instead of making trips to the IRS or the local public library, taxpayers were able to download forms instantly through the IRS homepage on the World Wide Web and now taxpayers with simple tax forms can file at home on the phone. (The IRS Web page has received over 100 million "hits" thus far.)

- Cut paperwork requirements, canceled many useless regulations, and overhauled many other regulations by rewriting them in plain English.

- Led the multi-agency project named Simplified Tax and Wage Reporting System which will significantly reduce the wage data reporting burden of employers and improve Federal and state employer tax operations.

- Established customer service plans and reliable feedback mechanisms to determine customer satisfaction in 90 percent of Treasury's operations (pursuant to the Customer Service Executive Order which targeted 25 percent rate by 1996).

- Reorganized Customs to eliminate two layers of bureaucracy and move more staff to front-line jobs that provide service directly to the public.

Goals:

- Reform the IRS, as discussed above.

- Reinvent Treasury's personnel system to implement a process for strategic and effective human resource management to identify, recruit, develop, reward and retain high performing individuals.

- Use new approaches and new technology to work more efficiently and serve the public better.

- Complete a clean and comprehensive audit of an agency-wide financial statement, including the IRS.

- Explore opportunities for further reinvention and deregulation.

- Use new approaches and new technology to work more efficiently and serve the public better.

- Complete a clean and comprehensive audit of an agency-wide financial statement, including the IRS.

- Explore opportunities for further reinvention and deregulation.

cc Vice President Gore
Leon Panetta
Erskine Bowles
Donald Baer
Rahm Emanuel
Sandy Berger
Kitty Higgins
John Hilley
Frank Raines
Bruce Reed
Gene Sperling
James Steinberg
Dan Tarullo

Written by Mike Froman

NCC originals and cc's to WH

NCC cc to LS
1/6/97 SS
Please Log and file (draft may already be logged)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 9, 1998

NOTE FOR SECRETARY RUBIN

From: **Allison Fansler** AF

Subject: **Cabinet Meeting**

In preparation for the Cabinet Meeting tomorrow, Cabinet Affairs asked that we compile a list of Treasury's accomplishments over the last six months and our goals for the next six months.

Attached for your information is the list that we sent to Cabinet Affairs.

September 9, 1998

TREASURY ACCOMPLISHMENTS AND GOALS

Treasury is involved in a broad array of activities, from strengthening the stability of the international financial system to interdicting drugs at our borders, from auctioning government securities to negotiating international tax treaties, from improving the IRS to bringing all Americans into the economic mainstream.

This memorandum outlines Treasury's current priorities. Under each priority, we have listed accomplishments from the preceding six months, as well as goals for the upcoming six months.

Manage the Domestic Economy

Accomplishments:

- Reduced debt held by the public during the fiscal year by approximately $60 billion, including a $110 billion reduction in marketable securities and an increase of $50 billion in savings bonds and other nonmarketable securities. (End of FY'98 estimate)
- Improved debt collection efforts by completing extensive portfolio analysis of debts owed to government and increasing referrals to Treasury of debt past due.
- Provided oversight for the privatization of several government entities, including the U.S. Enrichment Corporation and the Elk Hills Petroleum reserve.

Goals:

- Enact the business bankruptcy bill drafted by the President's Working Group on Financial Markets.

Enact the President's Tax Proposals, Simplify the Code, and Improve the IRS

Accomplishments:

- Enacted comprehensive IRS reform designed improve customer service and tax compliance.
- Initialed tax treaty with Venezuela.
- Developed proposed Administration initiatives and revenue raisers for the FY'99 Budget, including proposals to make child care more affordable, promote energy efficiency, encourage expanded retirement savings, help fund public school construction, and increase the availability of low-income housing.
- Developed portions of the Administration's proposed policy on electricity deregulation that relate to taxation, specifically the tax treatment of debt issued by municipally-owned utilities and the tax treatment of nuclear decommissioning costs.
- Closed tax loophole which allowed corporations to avoid billions of dollars of corporate tax through the use of a closely-held regulated investment company (RIC) or real estate investment trust (REIT).

Goals:

- Implement the IRS restructuring legislation.
- Continue to work on taxation of the Internet and electronic commerce.

Improve Retirement Security and Increase Savings

Accomplishments:

- Introduced the inflation-indexed savings bond.
- Introduced lower denomination Treasury securities, which puts Treasury marketable securities within easy reach of small investors.

Goals:

- Preserve the budget surplus until a long term solution for Social Security is put in place.

Maintain U.S. Leadership on the issues of the Global Economy

Accomplishments:

- Worked to manage the financial crisis in Asia, Russia, and other emerging markets.
- Traveled to Asia and Africa to meet with officials and encourage the process of reform.
- Established the G-22, a group of 22 countries comprised of the G-7 and key emerging and transition economies, following up on the President's pledge in Vancouver last November to convene a global group to consider the implications of Asian crises.
- Secured passage of the Senate Foreign Operations Appropriations bill which contains $18 billion in funding for the IMF and New Arrangements to Borrow (NAB).

Goals:

- Continue to work with countries experiencing economic crises to guide them toward financial stability.
- Secure passage of IMF quota increase and the NAB in the House.
- Continue to develop Halifax II, a set of proposals to reform the international financial architecture.
- Help to secure fast track authority.
- Help to secure passage of the Africa trade bill.
- Seek Congressional support for the MDBs and IFIs.

Help Low Income Households and Economically Depressed Areas

Accomplishments:

- Improved the management, direction, and operations of the CDFI Fund, including receiving an unqualified opinion on its financial statements from KPMG Peat Marwick, instituting new policies and procedures regarding the awards process, and establishing a technical assistance program for the awardees. Announced the second round of CDFI/BEA awards totaling $57 million.
- Wrote child care report illustrating how child care can benefit businesses.
- Established Business LINC mentoring program.
- Exceeded Welfare to Work hiring goals by 230% as of June 1998.

Goals:

- Write report on business mentoring.
- Work to secure the President's request for $37 million for the NADBank CAIP.
- Continue to work with Congress to secure reauthorization and appropriations for the CDFI Fund, as requested in the President's budget.
- Announce the third round of CDFI/BEA awards.

Modernize the U.S. Financial System

Accomplishments:
- Held regional EFT '99 Public Education meetings in cities across the country to provide information on the requirement that all Federal payments be made electronically by 1999.
- Made significant progress in efforts to ensure that government payments (particularly Social Security and IRS payments, which account for 80% of FMS' total payment volume) continue without interruption on January 1, 2000.

Goals:
- Seek passage of an acceptable financial modernization bill to increase competition and efficiency in the U.S. financial services market.
- Develop a sound and coherent electronic money policy.
- Continue to prepare to implement the requirement that all Federal payments be made electronically by 1999, including the development and implementation of a policy to facilitate the provision of financial services to those who are currently unbanked.
- Work with the financial services industry to protect the critical infrastructure of the U.S. financial services system.

Fight Financial and Other Crimes

Accomplishments:
- Introduced the redesigned $20 bill designed with advanced counterfeit deterrence features.
- Successfully conducted numerous drug interdiction and anti-money laundering operations along the U.S. borders, particularly the Southwest border.
- Successfully conducted an investigation of a worldwide child pornography trading ring.
- Reached out to global partners in crime fighting on money laundering and narcotics trafficking.

Goals:
- Finalize Customs' Automated Commercial Environment (ACE), a computer system which will reduce paperwork, improve ready access to relevant data, enhance enforcement, and expedite trade.
- Strengthen efforts to fight financial crimes to support broader anti-crime activities and to strengthen international cooperation against money laundering, organized crime, and drug trafficking.
- Achieve more strategic Customs enforcement at the border to maximize interdiction and the facilitation of trade.
- Further develop a financial crimes strategy.

1998-SE-013231

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 23, 1998

MEMORANDUM FOR CHIEF OF STAFF PODESTA

FROM: ROBERT E. RUBIN R.E.R.

SUBJECT: Priorities for the end of the Administration

As we look ahead to 2000, Treasury will no doubt continue to be involved in a broad range of activities, from tax and budget issues to drug interdiction and gun control, from dealing with the global financial crisis to addressing inner city poverty, from the management of the government's debt to the reform of the regulatory structure of the U.S. financial system, and promoting economic growth both at home and abroad.

Below is an initial effort to identify some of the Department's priorities for the remainder of the Administration.

Maintaining fiscal responsibility: The main battle will be over the shape and content of the FY 2000/2001 budgets. This, in turn, will depend on what is done to address Social Security reform.

- Social Security: Continue to work with NEC to develop optimal plan to reform the Social Security system.
- Tax/Budget Analysis/Negotiations: Generate possible raisers and analyze proposed cuts in run-up to the presentation and negotiation of the FY 2000 budget.
- Protection/Simplification of income tax code: Continuous review of the income tax code to simplify and streamline reporting requirements and to defend its integrity.
- Debt management: Develop and execute strategy for optimal Federal debt management.
- Corporate tax shelters: General review of corporate tax policy with goal of closing corporate loopholes and developing a systemic approach to corporate tax reform.
- Medicare: Support efforts of the Commission to lay out major questions of reform, and work to develop Administration position.
- Privatization: Complete executive order/memorandum and identify/manage further targets for privatization.

Providing leadership in the global economy: Dealing with the global financial crisis and the future architecture are high priorities. But there will also be a plethora of trade issues, from the pressure for protectionism to the fifth anniversary of NAFTA to the pursuit of fast track to setting the agenda for the 1999 WTO Ministerial.

- Global Financial Crisis: Continued monitoring of global financial system, prevention of the spread of contagion, implementation of corporate debt restructuring initiative in Asia, promotion of pro-growth economic policies, and development of preventive remedies for future economic shocks.
- Financial Architecture Reform: Continued work on implementing changes to international financial architecture and structuring ongoing agenda, MDB financial condition and reform, IMF and Precautionary Facility.
- Trade: Understanding and containing effects of the global crisis on trade, combating rising protectionism at home, seeking coordinated Administration policy on steel and other import-sensitive industries, fast track legislation, passage of the Africa Trade Bill, preparation for 1999 WTO Ministerial agenda
- Country/Regional Work: Japan (banking sector reforms, trade dispute resolution and financial reform), Brazil (financial support, ESF use, market stability), Russia (economic and political engagement, debt management, WTO issues, and tax and banking sector TA), Africa (support for reformers, regionalization, HIPC, trade opening); other countries (e.g., China, Ukraine, Pakistan, Central America, South Africa, Turkey, Bosnia).
- EMU: Monitor implementation of EMU, determine European participation in international fora.
- Debt sustainability/restructuring: Manage debt work-outs for Indonesia, Pakistan, Russia, and continue implementation of HIPC.
- International tax policies: Continue to pursue initiatives in the OECD to address tax competition problem, complete additional tax treaties.

Enhancing financial security: Combining initiatives on increasing savings, providing consumer protection, strengthening financial literacy and fighting consumer fraud could be a powerful focus of activity over the next two years.

- Consumer protection/privacy: Develop initiatives around disclosure and sales practices of financial services, and address issue of industry privacy guidelines.
- Consumer education/savings: Develop public education campaign around savings and increase incentives for savings.
- Financial Crime: Implement broad strategy to deal with consumer-oriented financial crimes (e.g., identity theft, credit card fraud, access device fraud, cellular fraud).
- Bankruptcy: Reexamine the 1998 legislation to formulate a bankruptcy reform program.

Bringing low-income people into the economic mainstream: We will continue to pursue an agenda for improving the economic prospects of people in the inner cities and distressed rural communities, and democratizing access to capital through CDFI, EFT, BusinessLINC and other initiatives. We will also explore synergies between our economic development and enforcement strategies (e.g., anti-gun, anti-gang) to help build safe communities in which economic activity can expand.

banks to provide it, address concerns around voluntary accounts.

- NADBank: Improve financing policies, enhance outreach/marketing, reform eligibility requirements.
- CDFI: Secure continuing reauthorization/additional appropriations, expand into microenterprise, complete initial evaluations, develop secondary markets.
- D.C. Economic Development: Engage new District of Columbia administration in management of financial and economic development plans. Create an economic development plan and implement economic development corporation. Segregate D.C. Pension assets and convert to Treasuries, manage benefit administration responsibly.
- Southwest Border strategy: Complete study, develop strategy for improving existing programs (e.g., NADBank) and develop new mechanisms for improving job creation and economic conditions.
- Business Mentoring: Complete report, and institutionalize ongoing mentoring effort.
- CRA/EITC: Mount a vigorous defense against any effort to roll-back these programs.

Maintaining a strong and healthy financial system: From revisiting financial modernization to beginning to address the issues posed by highly-leveraged institutions to developing a comprehensive anti-money laundering strategy, we have an opportunity to develop a regulatory framework and enforcement strategy to vouchsafe a financial system for the 21st Century.

- Financial Modernization: Reform of the regulatory structure, maintenance of the national banking system, and reform of the FHLB system.
- Derivatives/Hedge Funds: Complete studies, explore appropriate mechanisms for regulation, address issues around CFTC concept release.
- Anti-counterfeiting: Pursue strategy of public education, industry cooperation and enhanced prosecution/sentencing.
- Financial Crime: Develop anti-money laundering strategy, address specific money laundering threats (e.g., Black Market peso), and implement broader financial crime strategy (e.g., identity theft, credit card fraud, access device fraud, cellular fraud).
- Electronic commerce: Explore further areas for development of government policy (e.g., digital signature, e-cash, virtual banking).

Building safer communities: To complement our economic development objectives, we will explore opportunities to pursue a public safety agenda, in collaboration with other law enforcement organizations.

- Drug interdiction: Enhance cooperation among Customs, INS and Border Patrol through implementation of the Southwest Border initiative.
- Gun control: Expand Youth Gun Crime Interdiction Initiative and close loopholes in Brady laws.
- "Weed & Seed"-type initiative: Explore synergies between public safety (e.g., gun control, anti-gang) and economic development efforts in inner cities and elsewhere (e.g., SW Border).

- Alcohol policy: Working with HHS, develop policies to discourage teen drinking and alcohol abuse.

Strengthening Treasury as an institution: We will continue to focus on the improvement of human resources policies and practices, including recruitment, career development and training and, when necessary, management of under performance. Other major management issues include addressing the Y2K challenge and completing clean and comprehensive financial statements.

- Improve overall management practices: Streamline processes, provide clear rationale for decisions, instill client service mentality
- Human Resources reform: Increase investment and improve provision of personnel training, and create a performance reward system that encourages professional development and accomplishment.
- IRS restructuring: Continue to work with IRS to to restructure the agency and implement IRS reforms. Continuous review of the income tax code to simplify and streamline reporting requirements.
- Debt Collection: Merge tax and administrative offset programs, encourage agencies to refer their overdue debts, and manage collection effort.
- Y2K: Make all systems compliant by May 1999.
- Security/Critical Infrastructure: As directed by the President, develop comprehensive security plans and defenses against cyber-attack.

Drafted by M.F. 11/19/98

M.F. to RER 11/20/98

RER revised 11/23/98

cleared by LHS + G.C. 11/23/98
OPSIA + Econ. Policy

ok to autopen per MF 11/23/98

PA autopenned 11/23/98

PA Original to Chief of Staff (D. Bloom)
11/23/98

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Priorities for the Office of Economic Policy During the Next 18 Months

A. Top priorities among items on the proactive agenda

1. Social Security and Medicare reform. This is what many of us came to the Treasury Department to help the Administration accomplish. Current circumstances provide an historic opportunity for achieving both Social Security and Medicare reform.

2. Fiscal policy. A number of observers have interpreted the fact that we are projected to eliminate the debt held by the public by 2015 as constituting *prima facie* evidence that a tax cut is justified on purely substantive grounds. This perspective flies in the face of the view that could be seen as underlying the Administration's Mid-Session Review -- that a sensible objective for fiscal policy is to balance the non-Social-Security budget (taking suitable account of the stage of the business cycle) while putting Social Security in long-term actuarial balance. The MSR fiscal objective implies that we should be doing *more* government saving, not less. A solid defense of that view could prove helpful in the fiscal policy debates of the next 18 months.

3. Bankruptcy reform. This Office has played a leading role in pushing the process as far forward as it is today. In particular, we have developed compromise proposals on several key issues (means testing, reaffirmations, credit card disclosures, and loopholes for the wealthy) that are likely to be incorporated in the final Senate bill. However, achieving reform is likely to require some commitment from both the Secretary and Deputy Secretary. In the weeks ahead, we will need not only to continue to push for moderation in the Senate bill but also to preserve these features in Conference with a less-desirable House bill. It is unlikely that the President will veto the final bill, but we may also need to help make the case for signing.

4. Debt management. According to OMB's latest long-run projections, debt held by the public will be eliminated by 2015. Because some of this debt is nonmarketable (e.g., savings bonds) and some is held by the Federal Reserve, the market for Treasury debt could effectively cease to exist several years earlier. This raises many important questions, including:

- At least by 2015, the government will have to begin accumulating private sector assets. What groundwork, if any, should be laid now, in preparation for that eventuality?

- How great is the positive externality from a deep and liquid market for Treasury securities? If it is judged to be great, we may be driven to confront the issue of accumulating private-sector securities soon. Even now, some market participants are complaining about lack of liquidity in certain segments of the market.

- If we say we are going to pay off all debt held by the public in 15 years under the President's program, does it make sense to continue issuing non-callable 30-year securities?

We have had some preliminary discussions with Lee Sachs about these issues and a wide number of other issues. Obviously, he has lead operational responsibility, but we would like to chip in as we can in a constructive manner.

5. Living with free trade. As the Administration continues to support a free-trade agenda including fast track and expansion of NAFTA, among other items, the issue of dealing with dislocations will assume an increasing important role in determining both public and political support. Treasury has an important role to play in these policies, through its NADBank and CAIP programs, among other channels. Vigorous support of these and related programs will be essential for facilitating the Administration's trade agenda.

6. Extending the benefits of the economic expansion to all regions. As the macroeconomy has prospered, transitional disequilibriums have developed in some regions, while other regions continue to lag behind the rest of the nation due to more structural issues. The President has emphasized the importance of these issues with his recent visits to distressed areas. As the economy continues to grow, concern about issues of regional development will become a more important policy focus, particularly the issues associated with regional development financing. The border region is critical in the context of an open economy; our leadership as Chair of the Presidential Task on the Development of the Southwest Border Economy will be seen as an important administration effort that involves a multitude of issues including regional development, trade/trade adjustment, and federal coordination of services and programs.

7. Financial literacy. This Office and other offices in Treasury have led the development of an interagency campaign, working with a broad range of private-sector groups, to help improve Americans' financial literacy. We view this initiative as an essential component of Treasury's broad policy goal of increasing saving and financial opportunities. Without better financial education, many Americans may not be able to take advantage of existing and proposed opportunities for increasing their financial security. For example, the available literature and the experience of employers with 401(k)s implies that financial education programs have an important impact on savings behavior; studies have also shown that financial education in high school improves financial outcomes later in life. This campaign will not require extensive office time or funding, and will benefit from private-sector funding and support. It would also benefit from participation by senior Treasury officials.

B. Top priorities among the reactive agenda

1. Rigorous economic analysis of special pleading. Despite the overall strength of the economy last year, some sectors (most notably steel, oil and gas, and agriculture) experienced weakness that led them to seek additional support from the Federal government. If the economy slows as expected and if the trade deficit widens, additional industries are likely make similar requests. One of our priorities should be to provide rigorous analysis to separate those cases that have economic merit from those that do not and to help fashion remedies that promote economic efficiency.

2. Heightened attention to the state of the business cycle. Conventional analysis suggests that the economy is already operating beyond its full potential currently. Now there are early (and still inconclusive) signs of firming activity abroad, that could give the domestic economy yet more forward momentum. Our perception is that the risks are probably higher than average, and that the macroeconomic situation will accordingly warrant closer-than-average attention.

NC / PA / AC 99 5E-007384

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

July 7, 1999

MEMORANDUM FOR SECRETARY SUMMERS

FROM: Charles O. Rossotti COR
Commissioner of Internal Revenue

SUBJECT: Your Request for a Summary of Major Issues

At your staff meeting on July 6, you requested each agency head to prepare a short memo describing the key issues facing the agency over the next year or so.

In the case of the IRS, we face one overriding challenge during the next 18-24 months, namely showing that the "new IRS" can work.

The IRS Restructuring and Reform Act of 1998 (RRA 98) and the many reports that led up to it created both specific taxpayer rights and more general expectations as to how taxpayers would be served. The IRS modernization program is designed to meet these taxpayer expectations while also increasing effectiveness in compliance and overall efficiency in tax administration. I firmly believe this program can succeed and we can improve on all fronts - service, compliance and productivity - if we can stay on the modernization path and make the necessary improvements in management, training and technology.

The challenge is that it will take time and some money to make the transition, and in the meantime our resources are dropping and demands are increasing. During the next 12-18 months, there is the risk that a perception or even a consensus will develop that the whole program is a failure. One of the ways this could happen is that in the near term the traditional enforcement statistics will continue to drop while service remains marginal, enabling critics to charge that the whole program is a failure, before we even begin to realize the benefits of the modernization program.

If a consensus should develop along these lines, the consequences are unpredictable. It is unlikely that the conclusion would be "let's go back to the old IRS," but it might be "there is no way to fix the IRS."

While there are many problems we have to deal with successfully in order to avoid this negative scenario and make our program succeed, we do have one external constraint that is becoming critical right now, namely the budget. We are planning a separate discussion with you on this subject, but the essence of the problem is that the FY 2000 budget was essentially flat while the demands due to RRA 98 as well as the continued growth of the economy have accelerated what was already a steady erosion in resources available for traditional compliance programs. It is vital that we obtain enough resources to stabilize our compliance operations and enough investment funds to continue with modernization. This creates a need for additional funds in FY 2001, after which the budget can grow at a slower rate.

Another important issue we will deal with over the coming period is how to work with the IRS Oversight Board. Nancy and I have been working to develop an orientation program for the new board members, and we are beginning to think through some issues related to how the board might be supported. Given that this board is new and has not yet established processes or traditions, there is great potential for it to evolve for better or for worse in its influence over the IRS. To have the greatest chance for success, we will have to invest considerable time and energy working with the new board.

cc: Nancy Killefer

TREASURY CLEARANCE SHEET

NO. 99-SE-007384
Date 7/8/99

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ____

FROM: Charles Rossotti
THROUGH:
SUBJECT: Secretary's Request for Summary of Major Issues

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for International Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other ____

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Charles Rossotti	COR	7/7/99	Commissioner of Internal Revenue	622-9511
REVIEWERS				
Neal Comstock			Executive Secretary	622-2735

SPECIAL INSTRUCTIONS

☐ Review Officer ____ Date ____ ☐ Executive Secretary ____ Date ____

DO F 80-02.1 (04/89)

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

July 12, 1999

MEMORANDUM FOR SECRETARY SUMMERS

FROM: Timothy Geithner AB for
Edwin M. Truman MJ for
Caroline Atkinson AB for

SUBJECT: The International Agenda

The following note outlines our current views on the main issues that are likely to shape the international agenda over the next 18 months. We have combined up front those issues you are likely to be forced to confront and those issues where we believe you could choose to use your capital. At the end of this cover note is a short list, as you also requested, of issues and initiatives that we do not now believe are feasible or desirable to pursue, though our views on this may change. The attachment includes a more comprehensive list of policy issues that are either in the pipeline already or now in prospect.

1. **The sustainability of our external position.** We need to intensify our efforts to assess the magnitude of the potential deterioration in our external deficit and to pursue options for reducing the risks of an avoidable expansion in the imbalance and a messy adjustment. We do not have a particularly appealing, or promising set of tools to deal with this challenge.

   It may be that our best defense will be a combination of sustained, quiet pressure to prevent further efforts by Japan and Europe to induce further depreciation in their currencies, more visible theater around G-7 efforts to produce a pattern of growth more conducive to the eventual adjustment in these imbalances, and some Summers magic around private savings in the United States..

2. **External vulnerabilities.** Despite the generally improved outlook for the world economy, we still face a quite vulnerable and uncertain outlook, with little sign yet of enduring recovery in Japan, Europe still quite soft, China increasingly troubling, acute pockets of distress in many emerging market economies, young and vulnerable recoveries in Asia, and a number of systemically significant, potential hot spots where the political calendar is magnifying the underlying financial and economic risks.

   – China and Argentina seem at this point to be the most vulnerable among the major emerging market economies with systemic significance, but this is a difficult judgment to make within any confidence. Problems with these two cases would challenge our recently-articulated policy on exchange rate defenses. And, as we have seen, the failures of even relatively small economies with little obvious global financial significance can trigger larger consequences as well as burn up significant US Treasury resources, e.g., Jordan and Ukraine.

– We always need to be mindful of Russia (and this need may intensify in 12 months), Mexico faces the challenge of a real democratic transition, and Brazil is hardly on a sustainable path.

3. **The trade agenda.** The domestic agenda is mostly defense, and the potential for new trade expanding initiatives seems limited to the existing pipeline of commitments/ proposals, including the Africa and CBI bills and a China/WTO vote. Internationally, most of our policy focus is now shifting to the Seattle WTO ministerial at end of November and priorities for the next round. If there is any potential for good here, it is likely to come only as a result of some effort to put together some a stronger domestic consensus that combines some support for the Democratic caucus agenda with a strong market opening orientation.

You have the potential to help shape this debate, more so than might be the case for other occupants of your office. A series of speeches with the objective of framing a new consensus might help advance our policy, and it would help insulate us a bit from the risk that we are increasingly viewed as either too conflicted on the merits, too constrained by politics, or too weak to do anything.

4. **Development policy, debt, and finance.** You inherit a number of quite formidable commitments and challenges in this area that are still at an early stage, the most prominent are financing the Cologne Debt Initiative, reforming ESAF and the IMF/WB poverty framework, and securing adequate Congressional funding of the 150 account.

In addition to these priorities, we should think through whether we want to take on the following additional initiatives, *recognizing that most of the innovation in this area requires money, that there is little scope for drama in reallocating the existing limited pool of resources, and that we have no demonstrated capacity at this point to mobilize new sources of development finance on a material scale.*

– We could support a significant expansion of the financial resources available to the MDB's hard and/or concessional facilities. We are likely to face increasing pressure to do so, and it may make sense for us to get out in front of this so that we can better shape the debate. (We are already engaged on the Asian Development Fund.)

WB quota increase?

– We could support a financial commitment to financing Global Public Goods, such as aids prevention, a malaria vaccine, etc. and encourage the existing World Bank efforts in this area.

– We could seek to play a more active role in defining the development policy agenda, generally and for the World Bank in particular, by, for example, outlining a way to make Wolfensohn's comprehensive development framework more concrete and operational, more actively redefining the priorities of the Bank in the legal and institutional development areas, etc.

- We could pursue a more radical reorganization of the roles of the IFIs in the development finance business . . . . ending ESAF and restricting the IMF's role in the IDA-eligible countries to advising and approving the macro framework, privatizing the IFC/merging the IFC with MIGA, consolidation of regional MDBs with World Bank?

- There may be more scope for innovation in the financial arsenal of the MDBs and the IMF, including in the risk sharing/credit enhancement area, new post conflict instruments, and, as mentioned above, in the financing debt writedown area.

5. **Financial Architecture**

Carrying forward the Summit agenda: We have a lot to flesh out and to deliver, most importantly in the private sector framework (see below), the G-X, the broad array of best practices (debt mgt, etc.), and the new exchange rate doctrine you advanced. *The attachment provides an inventory of these initiatives. We also have to consider how best to involve non-G7 countries in a way that supports our agenda. (Latins, egged on by Harmon, are working on a separate agenda.)*

New issues: There's general architecture fatigue at the moment, which makes it a bit difficult to explore with freshness any new frontier of reforms, and we need to make sure we execute what we have already outlined before we launch a new wave. *Despite this, we need to continue to look at the universe of new ideas. Our sense is that most of the scope for potential novelty will lie in the areas we mention in this note, in the development finance area, in the respective roles of the various IFIs, in the exchange rate/dollarization area.*

6. Our framework for the **role of the private sector in sovereign financial crises**. We have a lot of work to do here, both in better refining the general framework that can help navigate the conflicting imperatives we face, and in working through the cases now in play. It will be important to make decisions on specific cases in the context of the broader considerations.

7. **Dollarization, exchange rate regimes in emerging markets, and the exchange rate system**

We need to move to a decision on whether and on what conditions we would be prepared to support dollarization in Argentina, and in that context, whether we are prepared to begin to point the world toward a longer term objective of reducing the number of currencies in the world, presumably around a few regional anchors. This would raise important issues of how best to move toward an anchor and how financial help should be offered en route.

8. **Kosovo and Southeast Europe.** A principal concern in dealing with the conflict over Kosovo and its effects on the surrounding states will be determining how to provide effective assistance without wasting too many human and financial resources in conferences and corruption respectively. For the countries surrounding the conflict, the immediate need is for BOP and budget support to deal with the economic effects of trade disruption and reduced customs and tourism revenues given that the refugees are rapidly returning home. We need to accelerate both the countries' economic transitions to market-based economies and their integration with Europe and reinforce IFI conditionalities with more carrots, for example a comprehensive plan to expand the available investment financing envelope via IFC/EBRD/MIGA/OPIC, ECAs or enterprise funds. Kosovo itself and possibly the FRY or some portion thereof will require economic assistance for stabilization and reconstruction.

We will have to monitor carefully the ongoing situation to ensure that an economically rational strategy is developed and implemented. We have been successful so far in getting the EU and World Bank to take the lead, working with Finance Ministries. The challenge will be to enforce the division of labor and avoid inappropriate encroachment into the economic sphere by the foreign policy community, while maintaining the right degree of political oversight and impetus.

9. We are likely to continue to confront increased **Euro-cohesion and obstructionism and increased Japanese opportunism in Asia**, in part taking advantage of our own period of political transition. Our choices range from 'taking it' and continuing to support sensible policies while patiently knocking down others' unproductive schemes to addressing these challenges aggressively, telling the Europeans to stop being obstructionist and telling the Japanese that we will strongly oppose efforts that would damage other Asian economies in the long run. Prudence dictates the former course spiced with a hint of the latter from time to time.

Issues Off-the-Table

You asked us to list possible policy issues that we have left off the table for consideration, at least at this time. We are generally pretty careful not to foreclose consideration of sensible initiatives, and we list above for consideration a number of somewhat unrealistic, though desirable, issues. Here are some issues that we are not now actively exploring:

- Seeking Congressional appropriation/authorization for a separate fund to be used for balance of payments related lending to emerging market economies. new ESF?
- Any of the various SDR-related options for mobilizing new sources of reserves. jumbo SDR allocation
- Selling or somehow mobilizing U.S. gold reserves.
- A return to the old reference range/target zone wizard-of-oz stuff with respect to the major currencies.
- A great leap to regional monetary union in this hemisphere.
- A serious push for fast track authority.
- A serious exploration of new FTAs, beyond the hemispheric free trade initiative.
- Articulating a new regime for international capital flows and/or the supervision of financial institutions behind them – an architecture issue that may not go away.

Appendix: International Economic Issues

Here is a detailed list of international economic issues that we will be working on during the next 18 months, listed in rough priority within functional and regional categories.

Country Issues

Japan:
- Exchange rate policy -- intervention policy/operations and impact on Japan's external accounts.
- Fiscal and monetary issues, including size and timing of supplemental FY99 budget, FY00 budget, prospective pension funding shortfalls and impact on consumer confidence.
- Structural reform: what is happening in the private sector, how is GOJ policy affecting it?
- Japan's stance on Asian regional economic issues and its foreign assistance policy

Europe:
- Fiscal and monetary policies: spurring domestic demand?
- Exchange rate policy and European trade imbalances.
- Structural reforms, particularly in labor markets.

Asia
- Recovery in Korea, Thailand.
- Malaysian unorthodoxy. Evaluation of results.
- Asian financial sector recovery, restructuring, and reform. Implementing the financial sector aspects of the Asian Growth and Recovery Initiative (AGRI). Continuing efforts to encourage the recovery of the banking sectors in Korea, Thailand, Indonesia. Encouraging financial sector regulatory policy reform in China.
- Indonesia starting with the post-election period
- Making progress in implementation of various APEC initiatives, including improving the training of bank supervisors and securities regulators, assessing and improving bank supervision and developing domestic bond markets.

Latin America
- Momentum of Brazil's recovery.
- Argentina's fragility and exchange rate regime.
- Monitoring/analyzing financial sector developments in key emerging markets experiencing or recovering from banking sector problems (e.g., Mexico, Brazil, Argentina, Ecuador, Colombia).
- Mitch follow-thru: deciding who gets Mitch supplemental $25 million
- Colombia IMF program and availability of MDB resources
- Ecuador, unless it slides into the Pacific
- Venezuela, especially if oil prices reverse course.
- Jamaica fragility and adjustment
- Resolution of CABEI (the Central American Bank for Economic Integration), which will be hit hard by HIPC for Nicaragua and Honduras, may require attention from senior Treasury officials in the months ahead.

Central Europe/Mid East

- Russia. Need plan for promoting Russian growth, based on three ideas 1/ a longer horizon for US policy (admit this is going to take 5-10 years), 2/ recognition that things have not fallen apart in Russia and most of the left-wing ideological risks have passed and 3/ rigorous and creative advancement of the old structural agenda, with emphasis on institutions, micro level and regions.

- Ukraine. How to apply appropriate pressure to encourage Kuchma or his successor to move ahead with key reforms. As in Russia, we should look for ways to use broad-based, micro approaches to build constituencies for reform.

- Caspian Great Game. Will the quest for oil reserves in Causcus and Central Asia turn into a bonanza -- and, if so, how will the needed exit routes be developed and financed? What does the putative bonanza mean for economic development dynamics of the littoral states?

- Middle East Peace Process. New opportunities for faster progress, new engagement? (Jordan, Gaza-WB, Lebanon)

- India-Pakistan. Are the IFIs in effect financing armed hostilities?

African Issues:

- Reviewing Africa Initiative and country eligibility; preparing and hosting the Economic Forum on the edge of the Bank/Fund Annual meetings
- IFI support in countries where corruption/military spending are issues, e. g., Zimbabwe, Rwanda, Kenya, Uganda.
- Hedging commodity price exposure
- Promoting regional integration, international trade and investment integration
- Nigeria: debt relief, access to IDA
- Ethiopia: ESAF/HIPC status
- South Africa: Possibility of signing on to IMF's CCL; accelerating growth
- DROC: Post conflict economic assistance

Architecture Issues

- G-X Group. Agree on parameters for "G-X" and arrange first ministerial meeting near end-1999. Seek to nail down grouping with G-7 in July.

- Highly Leveraged Institutions: Internationalizing President's Working Group recommendations through the Financial Stability Forum. Recommendations due by spring 2000; interim report due in September.

- Transparency/Disclosure: Complete IMF code on Transparency in Fiscal and Monetary policy by September 1999; seek enhancements of SDDS for reporting of external debt and indicators of financial sector soundness. Promoting greater disclosure by private sector firms through Financial Stability Forum.

- Development of debt management best practices. Will work through IFIs to develop best practices in debt management for emerging markets.

- Monitoring exchange rate regimes. Vigilance needed on Fund advice, particularly for countries moving towards more fixed rate regimes. Need to promote support of sustainable exchange rates and preference for "corner solutions" in IMF discussions.

- Capital flows. IMF and Financial Stability Forum to examine country experiences with liberalization and use of controls on inflows, as well as data. IMF analysis due before Fall meetings; Financial Stability Forum recommendations due spring 2000; interim report due in September.

- Recommendation on strengthening collaboration between IMF and World Bank due at Fall meetings. Financial Stability Forum developing compendium of standards; expect progress report in September.

- Off-shore Financial Centers: FSF working group developing stronger incentives through FSF process to encourage OFC's to comply with international standards. Recommendations due spring 2000; interim report due in September.

- Participate in G-10 survey of market participants on collective action clauses.

IMF Issues

Policy Issues (some also listed in above architecture section)
- Advance consensus on capital account issues; resist premature discussion of proposals for capital account amendment.
- Give guidance to IMF for further work on technical and legal issues, particularly on payments suspensions and standstills; promote acceptance of framework in IMF and G-10; increase awareness among market participants; monitor implementation of IMF's lending into arrears policy and other "private sector involvement" issues, including the IMF's interactions with private creditors and the question of amending Article VIII2b.
- Advocate more effective IMF programs, including through: refined program design, among other things to take into account social priorities; and enhanced monitoring of compliance with conditions after completion of the program period.

Operational Issues
- Select new Interim Committee chair. Work to rename committee. Expect joint IC/DC committee session at September Annual Meetings.
- Monitor implementation of decisions to enhance IMF transparency.
- External evaluation: assess results of surveillance and research evaluations; develop position on ongoing external evaluation or other approach to ongoing independent evaluation.
- Gain consensus on and implement G-7 proposed reforms of Interim Committee. Continue to oppose creation of an IMF Council.
- SDDS: coordinate creation of U.S. hyperlink; participate in IMF consultations on transition period and issues involved in establishing a separate reporting category for external debt.
- Make Contingent Credit Line (CCL) operational.

Congressional Mandate

- IMF Commission. This Congressionally-appointed Commission will last less than one year now that it is beginning its work.
- IMF Advisory Committee. You will host the first meeting of this Treasury-appointed committee in early September.
- Implementation of legislative mandates, including labor and environmental standards, directed lending, bankruptcy provisions, trade liberalization, etc. and coordinate such work within Treasury through bi-weekly task force meetings.
- Prepare ongoing reports to Congress.

International Development Issues

MDBs:

- MDB and GEF appropriations, arrears, authorizations
- Post conflict/military spending policies in multilateral and bilateral assistance programs and debt relief.
- New Performance Allocation System being initiated in IDA 12, AFDF 8, and to be negotiated in ASDF replenishment. Includes taking into account governance factors (corruption, participation, transparency) for the first time in allocation decisions in addition to macro performance and portfolio performance.
- Presidential term issues at World Bank and African Bank.
- Annual Meeting of IDB in New Orleans in Spring 2000.
- Preferred creditor status. Holders of debt of the European Investment Bank, the IFC, Japanese loans through the ADB, and some "B loans" by MDBs are considered by some to have preferred status. We may want to call for a broader G-7 initiative to impose some rationality on the conferral of de facto preferred creditor status.
- B Loan policy paper: current situation analysis and policy proposals.
- Continuing inspection panel issues at IBRD, IFC, MIGA, AFDB, ASDB, IDB.
- Sensitive environmental issues or projects: K2/R4 EBRD funding in Ukraine, Chad Cameroon Pipeline IBRD funding, Carbon Fund IBRD
- Sensitive country issues: IBRD funding or potential funding for Syria, Iran, Burma, Indonesia, Russia, Pakistan, and Yugoslavia/Serbia/Montenegro/Kosovo membership, arrears clearance and funding.
- Treatment of Blend IDA/IBRD countries for debt and funding purposes: Nigeria, Indonesia
- FSO implementation at IDB.
- Implementation of Leahy IFI voice and vote legislation on civilian receipt of military audits
- Pricing issues at MDBs.
- Development of network of MOUs between institutions, inter-institutional coordination issues, and Comprehensive Development Framework

Debt:

- Taking Paris Club lead away from State, although State would fight strongly.
- Portman Legislation implementation: Executive Orders for FY 1999 and for FY2000 including shifting implementation activities to USAID and State Dept.

- Create agreed determination mechanism for 'excessive' military expenditures as required by debt legislation.
- Progress on IFI labor issue performance
- Federal Credit Reporting System (FCRS): Bid and implement full modernization of interagency credit reporting system utilizing up to $4.5 million from past debt account appropriations. Goal to be able to determine how much foreign countries owe to the U.S. on real-time basis.
- NAC Reports: bring fully up to date with new format.
- Taking responsibility for IFAD (for agriculture development lending) from USAID, which already has active discussion on giving it to us.

Technical Assistance

- Funding Technical Assistance. Current funding of $26M/year is derived from several different State/AID components that are likely to phase out. Treasury will need to push for additional direct funding from Congress. Support from the Hill will be evident (or not) in the coming 18 months and determine the viability of Treasury's TA program.

- U.S.- Saudi Arabian Relations. Managing a complete reform of the US-Saudi Arabian Joint Economic Commission. The Technical Cooperation Agreement (TCA) expires in early 2000, giving Treasury considerable leverage in reforming the commission's future objectives, management, and administrative controls.

Trade Issues

Legislative:

- Amend 201 in WTO-consistent manner. This push appears to be losing a bit of its steam, but given Administration signal of willingness to discuss WTO-consistent changes, we may still see floor action on House and Senate bills.

- Fast Track Authority. Decide extent of Administration effort to get bipartisan consensus (scope, goals, labor, and environment), in light of upcoming Seattle WTO Ministerial, new round, and FTAA.

- China Annual Renewal of Normal Trade Relations (NTR). Despite Cox report on espionage, it is expected that motion in House to deny NTR will fail in July.

- China Permanent NTR. If China accedes to the WTO, the Jackson-Vanik amendment requires a vote of Congress to extend permanent NTR to China.

- CBI Enhancement Legislation. Trade benefits (especially in textiles) to CBI countries to offset NAFTA competitive impact and to assist in hurricane recovery.

- Africa Growth and Opportunity Act (AGOA) Legislation. Greater market access through enhanced GSP provisions (including textiles), trade development assistance and Eximbank and OPIC support.

- Export Administration Act. The Cox report is providing impetus to reauthorize and re-write the EAA (expired in 1994). Security vs. commercial concerns.

- GSP reauthorization. This year, key issues are likely to be reauthorization, length of reauthorization, and proposals to strengthen GSP's promotion of labor rights.

- Dumping Law Changes. After defeat of steel quota bill, the steel industry may press for changes to the dumping laws, especially to lower the injury threshold at the ITC.

Other Issues

- WTO Ministerial and New Round. The U.S. will host Seattle WTO Ministerial in November to launch next round of global trade negotiations.

- WTO Dispute Settlement. The review of DSU workings to be completed by end-July. Key new cases include EU ban against beef hormones, EU challenge to the U.S. foreign sales corporations (FSC) tax practices, and U.S. challenges to Korean government procurement and agriculture practices. Japan is challenging our AD laws in the WTO.

- WTO accession. Important economies (accounting for 10% of world trade) are in the accession process, including China, Taiwan, Russia and Saudi Arabia.

- WTO Implementation. Concern that many LDCs will not fully implement customs valuation and intellectual property commitments by 2000, as scheduled.

- Steel anti-dumping cases. 57 cases have been filed since 1998. Commerce has negotiated a suspension agreement with Russia and initialed one with Brazil.

- Oil anti-dumping cases. Commerce may initiate a dumping case on oil filed by industry last week, further encouraging cases in new product areas.

- EU privacy directive. Domestic Finance is confident that if we retain the privacy provisions in the House passed financial modernization bill, we can demonstrate adequate and effective privacy protection in the US financial services industry. US and EU officials will revisit this issue in the fall; in the meantime the EU standstill continues.

- Free Trade Area of the Americas. The near-term objective is to complete an annotated outline of the FTAA for the FTAA Ministerial in November.

- Japan Deregulation. Deregulation agenda needs reinvigoration in third year, particularly broadening sectoral agenda beyond U.S. market access requests.

- Japan Trade. Bilateral trade balance will effect ebb and flow of U.S.-Japan trade relations. Current irritants include flat glass, insurance, and government procurement.

- Labeling of Genetically Modified Organisms. Need for policy to counter EU opposition to GMOs, which is increasing and hurting U.S. food exporters.

- The Transatlantic Economic Partnership (TEP). Need results by December 1999 (biotechnology, expand Mutual Recognition Agreement, and trade-environment).

- Mexico. Mexican trucking issue unresolved. U.S. access issues include small package delivery, telecommunications, and intellectual property.

- Canada. Focus remains on Canadian agricultural practices (affecting grains, dairy, meat trade); broadcasting and telecommunications; and intellectual property rights.

- Andean Trade Preference Act (ATPA). Act expires December 2001, but Andeans want reauthorization now, expanded product coverage, and inclusion of Venezuela.

Financial Services Negotiations

Bilateral

- Currently the USG is within striking distance of agreements with China (for WTO accession) and Viet Nam (for a bilateral accord granting MFN tariffs), but outstanding issues include financial services.

- Accession talks with Russia and Saudi Arabia need considerably more work. (Financial services issues have been resolved in the accessions of Albania, Croatia, Moldova, Armenia, Georgia, Lithuania, and the terms of Taiwan's accession remain essentially agreed.)

- We are also negotiating with Korea on revising its WTO schedule to fully reflect its OECD commitments, as Korea agreed to do in its IMF program.

- NAFTA Financial Services. Continuing to encourage Mexico to permit direct foreign bank branching.

Multilateral

- Although no new agreements will be concluded soon, significant progress should be registered in financial services talks as part the FTAA (negotiating groups already established with 2005 target implementation date) and WTO Services 2000 negotiations (terms of reference to be set at the 1999 Ministerial, talks to start in 2000).

- In both these processes we will not only have to identify priority foreign practices and devise strategies to attain objectives, but work with domestic regulators and the Congress to respond to foreign request for liberalization of our market. Financial modernization legislation could significantly affect the role the U.S. can play.

- Financial Modernization and National Treatment. Ensuring national treatment for foreign financial services firms operating in the US under the new financial modernization legislation and regulations, if adopted.

Economic Sanctions, International Corruption, and Enforcement/ Financial Crime Issues

Economic Sanctions

- IWG for Sanctions - NSC/ NEC have proposed creation of an IWG to coordinate Administration policy on economic sanctions.

- Sanctions Reform - Administration (led by State and Stu Eizenstat) is attempting to build on Hamilton-Lugar proposals of 1998 to gain support for legislation to set guidelines for analysis of costs as well as perceived benefits of proposed sanctions and to ensure executive branch flexibility to exercise national waiver authority in the implementation of sanctions. Prospects for consensus on Hill do not look good.

- Exemption of Agricultural and Medical Products from Sanctions - State leading effort to implement President's decision to exempt selected exports from sanctions. OFAC preparing the necessary regulations.

- Cuba - Implementation of announced modest liberalization of sanctions to permit increased travel and remittances and possible sales of food and medicine.

- Serbia - Monitoring implementation of sanctions and proposed legislation to avoid directed vote on IFIs and to preserve flexibility and discretion to respond to evolving situation in pursuit of U.S. objectives.

- Burma - Appeals court just ruled against Massachusetts sanctions. If Massachusetts appeals to Supreme Court, USG must have a position.

<u>International Corruption</u>
- IFIs - Continue to press for increased attention to problems of corruption, including improvement in procurement requirements, development of uniform procurement documents and rules, evaluation of corruption in routine reporting, denial of assistance if corruption impeding economic reform or implementation of projects.

- OECD - Follow-up to Anti-Bribery Convention (monitoring ratification and implementation, seeking inclusion of additional foreign officials, seeking additional adherents). Pressing for anti-corruption provisions for export credit agencies. Supporting OECD study of anti-corruption provisions in WTO.

- Follow-up to VP's conference. Evaluate initiatives proposed by State regional bureaus. Better coordinate Treasury technical assistance and OASIA/ Enforcement policy interests with other USG and IFI efforts to combat corruption.

- Preparations for international anti-corruption conference in Durban in October 1999.

<u>Enforcement/ Financial Crime</u>
- Top issues are narcotics certification process, countering money laundering and financial crime.

Investment

- Cox Amendment (S. 1059) to the Exon-Florio Provision. This would require mandatory notification to CFIUS of all acquisitions of U.S. businesses that result in foreign government control and affect national security. We are arguing that voluntary system works well, mandatory filing not necessary.

- WTO: Scope of investment negotiations in new WTO round will be decided in Seattle.

- FTAA investment chapter negotiations have effectively begun with the USG seeking high standards for investment protection.

- Bilateral Investment Treaties: State/USTR will lead an interagency effort to develop a new prototype treaty, which we will argue must include language covering: rights to exercise prudential regulation, counter money laundering, engage in debt restructuring, and seek BOP safeguards. Treatment of labor and environmental issues will also be considered.

- Resolve IPP disputes in Indonesia. GOI has not resolved the disputes with the independent power producers (IPPs). This could undermine recovery efforts by discouraging new foreign investment. Could involve OPIC and the USG in a state-to-state investment dispute and international arbitration with GOI.

- Reauthorize OPIC. Current authorization will expire on September 30, 1999. OMB does not anticipate difficulties.

Trade Finance Issues

- Tied aid: Japan continues to look for ways to weaken the rules for commercial advantage. The Europeans are likely to seize any opening provided by Japan in this area. We need to keep the pressure on Japan to continue implementing the tied aid rules at the current level of discipline.

- Tied aid ban for the FSU: As a variant of the item above, Japan is threatening not to renew the ban in October, which would then allow them to subsidize exports to the region. LHS letter to MITI Yosano on the issue is awaiting signature.

- Untied aid: We are pressing in the OECD to develop multilateral rules and procedures to govern untied aid programs. We seek to ensure that these programs do not provide a way around the tied aid rules to distort trade, and allow U.S. exporters better access to this financing. Japan is the major obstacle.

- Environment: The U.S. achieved a Summit commitment by the G-7 to press to develop environmental "guidelines" for export credit agencies in the OECD. The U.S. wants to be far more aggressive than the other six on guidelines. Furthermore, other OECD governments may resist any work on guidelines.

- Bribery: The U.S. is pressing for export credit agencies to adopt internal procedures to help implement the OECD Convention. We have succeeded in getting the issue on the Participants agenda but have encountered stiff opposition (particularly from France and Japan).

- Kosovo reconstruction: The U.S. is developing a multilateral proposal to reconstruct Kosovo and the front line states with untied aid. We are working to finalize quickly a proposal on untied aid rules and procedures that will form the basis of our Kosovo proposal.

- Market Windows: Treasury is working to limit the ability of quasi-official financing institutions (e.g. KfW of Germany) to act as export credit agencies without being subject to the OECD rules. Germany and Canada are the principle roadblocks.

- Agriculture: Treasury leads OECD negotiations on an agreement to bring agricultural export credits under the OECD Export Credit Arrangement. The U.S. is isolated in trying to protect USDA's long maturities (up to 10 years but more typically 2-7 years). If unresolved, the issue is likely to inhibit our ability to reduce European agricultural subsidies in the next WTO round and to press for additional financing disciplines in the OECD.

- Aircraft: A financing war could break out between the U.S. and the Airbus country export credit agencies if we can not constrain new European practices that allow Airbus to sweeten financing deals in a way Boeing says it cannot match. The root of the problem is an inadequate U.S./EU Aircraft Agreement but in the short-run, Exim will be under pressure to match Airbus practices.

- Ex-Im's securitization project: The system will be served enormously if these credits are priced by the market and managed professionally.

Miscellaneous

- <u>Y2K Contingency Planning</u>. Encouraging countries to develop contingency plans through various multilateral fora (G7/G8, APEC, CHFI). Continuing US efforts to promote international efforts, including through the cabinet-level exercise, tentatively set for September 25.

- Extend the refinement of <u>U.S. reporting</u> with respect to the proposed template for reporting of official reserves and claims or charges against reserves. This would help promote publication of such data by other countries.

- Put in place capability to access and apply statistical analysis to the <u>Treasury Foreign Currency data system</u>, extending an ongoing effort to add analytical value to these data for use in reporting on global market developments. Develop a basis for eventual exchange of TFC-type information among key monetary authorities and potentially with major global custody institutions.

UNDER SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

July 12, 1999

MEMORANDUM FOR SECRETARY SUMMERS

FROM: James E. Johnson
Under Secretary (Enforcement)

SUBJECT: Office of Enforcement Transition Issues Memorandum

INTRODUCTION

In accordance with your request of July 6, this memorandum outlines key enforcement issues that we believe you and Deputy Secretary-designate Eizenstat should consider as you begin to set the Department's strategic objectives for the next 18 months. As requested, this document contains four categories of information: Part I -- "Enforcement's Proactive Agenda" -- sets forth issue areas in which the Office of Enforcement, in conjunction with other agencies and Treasury's law enforcement bureaus, anticipates taking a proactive role over the next 18 months; Part II -- "Enforcement's Responsive Agenda" -- describes issue areas which we anticipate will interest Congress and other actors external to the Administration; Part III -- "Enforcement's Comprehensive Agenda" -- provides a more extensive review of issues Enforcement is currently handling; and Part IV -- "Unaddressed Issues" -- outlines those issues regarding which Enforcement does not expect to be in a position to address.

I. Enforcement's Proactive Agenda

A. Policy Development

1. Counter-narcotics: Enforcement will build on the Border Coordination Initiative, through which Customs and the Immigration and Naturalization Service coordinate activities at the Southwest border; expand the money laundering focus of task forces; and will continue to work through issues related to the annual certification process.

2. Financial Crimes: Enforcement will implement the money laundering strategy, and create an infrastructure for both the development of future annual strategies and the implementation of the grant program; review Bank Secrecy Act reporting requirements to ensure that they meet law enforcement and regulatory goals while accommodating individual privacy concerns and burdens on the financial community; extend anti-counterfeiting efforts, both geographically and by typology; pursue and

lead identity theft and access device initiatives; and ensure greater coordination of the PDD-42 process for engaging nations on combating money laundering.

3. Violence Reduction: Enforcement will work to enact the President's gun and explosives legislative package; create a workable strategic enforcement plan in response to the President's recent directive; continue to develop the information needed to make responsible enforcement and regulatory policy; assess a possible Administration position on current firearms litigation, as well as on enhanced firearm safety laws and regulations; with Economic Policy, review the connection between economic conditions and violent crime; with Tax Policy, review whether tax policy can be used to effect illegal firearms market behavior; further incorporate our bureaus into the overall counter-terrorism effort; and pursue international trafficking policies that reflect our domestic and international anti-violence agenda while providing for the concerns of other nations.

4. Protection: Enforcement will support passage of the protective function privilege and review whether we should press for the renovation of Pennsylvania Avenue in front of the White House (without generating additional pressures for the reopening of the street to vehicular traffic).

B. Law Enforcement/Professional Responsibility

1. Violence Reduction: Enforcement will work to find new, effective ways to make appropriate Brady cases; maximize the effectiveness of criminal and regulatory firearms enforcement; extend gun tracing and anti-trafficking initiatives, including the Youth Crime Gun Interdiction Initiative; and complete the arson and explosives repository.

2. Presidential Decision Directive (PDD-62): The Office of Professional Responsibility (OPR) will oversee the Secret Service's efforts to implement PDD-62, which designates the Service as the lead federal agency for security planning and implementation for any event declared as a national special security event (NSSE). OPR will also be engaged in efforts to work with the Department of Justice, the National Security Council, and the Office of Management and Budget on funding for NSSEs. Additionally, Enforcement is working with Management to restore Treasury's Counterterrorism Fund; identify resource needs associated with the 2002 Winter Olympic Games; and identify resource needs of all Treasury Enforcement Bureaus to support their role in NSSE events.

3. <u>Fairness in Law Enforcement/Collection of Data</u>: OPR will oversee the development of Treasury's response to President Clinton's June 9 Executive Order issued to the Secretary of the Treasury, the Attorney General and the Secretary of the Interior regarding fairness of treatment by law enforcement officers. The President instructed Treasury, Justice and Interior to develop a proposal within the next 120 days to gather information on the race, ethnicity, and gender of those who are stopped or searched by law enforcement officers. In addition, the Department must provide to the President a report on training programs, policies and practices regarding the use of race, ethnicity, and gender in law enforcement activities, along with recommendations for improving the training programs, policies and practices.

4. <u>Seaport Security Commission</u>: Customs is one of three agencies that are leading the development of the work of the Seaport Security Commission. Assistant Secretary Bresee serves on the Commission. On April 27, 1999, President Clinton signed a Presidential Memorandum establishing the Interagency Commission on Crime and Security in U.S. Seaports. The Commission will prepare a report on the assessment of the nature and extent of serious crime in seaports; the overall state of security; an overview of the specific mission and authorities of Federal agencies; roles of state and local agencies; the effectiveness of coordination efforts; and will make recommendations for improving the response of Federal, state and local governments to the problem. The Commission will complete its work by May 2000.

5. <u>Training</u>: Enforcement will pursue the creation of facilities, under FLETC management, to handle an increasing workload; and create new International Law Enforcement Academies, under appropriate leadership and at appropriate sites.

C. Tariff and Trade Affairs

1. <u>Customs Automation</u>: Enforcement, in coordination with Management, will work with Customs as it begins replacement of its Automated Commercial System (ACS), with a new Automated Commercial Environment (ACE), to be completed over a 4-5 year period. There will be a significant budget impact, as well as significant public interest.

2. <u>International Trade Data System:</u> Enforcement will continue its oversight of the development of the International Trade Data System, deployment of which is to be completed over a 3-4 year period. This is a Vice Presidential re-invention initiative, which will bring significant government and public benefits.

3. G-7 Trade Document Standardization: Enforcement will continue its efforts to complete the G-7 summit initiative to develop standard, electronic trade documentation for trade among G-7 countries.

4. Child Labor: Enforcement will establish an effective partnership among advocacy groups, importers, and government agencies to eliminate trade in goods produced by forced child labor. This is a White House initiative, with substantial Congressional interest. Enforcement chairs the Child Labor Advisory Committee, which will hold its second meeting on July 13.

II. Enforcement's Responsive Agenda

A. Policy Development

1. Narcotics: Enforcement will respond to attempts by certain elements (on the Hill and within policy-making bodies within the Administration) to consolidate anti-narcotics policy and operations in an unhelpful manner; the continuing demands to enhance the efforts of other nations in an environment largely affected by the current certification rules; and the rising interest in a more enhanced use of IEEPA sanctions.

2. Financial Crime: Enforcement will complete the money services business regulatory process, while educating others on the value of the Bank Secrecy Act.

3. Violence Reduction: Enforcement will respond appropriately to assertions that we are not enforcing existing laws, including by improving public reporting on enforcement activity.

4. Firearms: Gun lawsuits: Enforcement will address the various institutional, legal and policy issues arising out of the lawsuits filed by cities against the firearms industry. The lawsuits and related legislation raise questions of the proper federal role generally, and ATF's role in particular, in these suits.

5. Firearms: Economics and Guns: Enforcement will continue to work with Economic Policy to assess how best to respond to assertions by two economists that unfettered gun access reduces violent crime.

6. Protection: Enforcement will respond to periodic calls to reopen Pennsylvania Avenue.

7. Coast Guard Roles and Missions: Under Secretary Johnson represents the Department of the Treasury as part of an Interagency Task Force reviewing the roles and missions of the United States Coast Guard, with a view toward developing a report to be used in restructuring the Coast Guard for the next 15 years.

B. Law Enforcement/Professional Responsibility

1. Violence Reduction: Enforcement will work to foster a better record-keeping and statistics-gathering process at ATF in order both to respond to outside claims and to develop the empirical basis for future policy proposals.

2. Firearms: Brady Implementation: Enforcement is working with ATF to improve its system for reviewing FBI referrals. The permanent provisions of the Brady Act of 1994 require that the FBI or state law enforcement agencies perform computerized record checks of purchases prior to the sale of a firearm. Brady denials are referred to ATF for possible criminal investigation.

3. Firearms: Safe Cities Network: Enforcement will coordinate Treasury's involvement with the Safe Cities Network Project. Vice President Gore recently announced this initiative of the National Partnership for Reinventing Government, which will attempt to leverage local and federal progress on firearms enforcement issues for the benefit of other jurisdictions by establishing a federally sponsored website through which federal and local officials share information. The Department of Justice is expected to fund this project, and ATF is participating.

4. Training: Enforcement will respond to the rapid increase in the number of students, particularly from INS, in a way that preserves centralized training, and will deal with demands that the ILEA South be placed in Roswell, New Mexico.

C. Tariff and Trade

1. Softwood Lumber: In response to requests from USTR and membes of Congress from lumber-producing states, the Customs Service has changed the tariff classification of certain softwood lumber products. The U.S. position is supported by domestic industry but opposed by the Government of Canada and by the international organization that oversees administration of the international tariff nomenclature and coding system. The U.S. position is also the subject of litigation in U.S. courts.

2. Sugar Syrups: In response to requests from members of Congress from sugar-producing states, the Customs Service has proposed to change the tariff classification of certain sugar syrups. The U.S. position is supported by domestic industry, but is opposed by the Government of Canada, and is likely to become the subject of domestic litigation.

D. Foreign Assets Control

1. Section 118 of the Treasury/Postal Appropriations Act: Through passage of Section 117 of the Omnibus Appropriations Act of 1999, Congress enacted amendments to the Foreign Sovereign Immunities Act allowing attachment of assets of terrorist-list states to pay certain judgments awarded to victims of terrorism supported by those states. These assets include diplomatic properties and other assets that have been blocked by the President under the International Emergency Economic Powers Act ("IEEPA") and the Trading With the Enemy Act. The President waived those provisions, in accordance with the national security waiver authority contained in the legislation. The scope and effect of the waiver are currently in litigation.

   On June 24, by proposal of Senators Kyl, Mack and Lautenberg, the Senate Appropriations Committee added language (now Section 118) to the Treasury/Postal Appropriations bill, which eliminates the effect of the President's waiver except as it applies to the primary diplomatic property of each state and expands what can be attached to include USG debts owed to terrorist-list states. Treasury has opposed the amendment, but passage by the Congress now appears likely.

2. Coverdell-Feinstein bill to impose IEEPA-like sanctions against Mexican and other foreign narcotics traffickers. In March 1999, Senators Coverdell and Feinstein introduced a bill that urged the President to emulate the on-going, successful Specially Designated Narcotics Traffickers ("SDNT") program against the Colombian drug cartels administered by OFAC and to use it against foreign narcotics traffickers in other countries, particularly Mexico. In late May, the two Senators introduced a far more substantive bill (S. 1171) that would create a new IEEPA-like program imposing SDNT-type sanctions against foreign narcotics traffickers, with the emphasis on Mexican drug kingpins. Although the proposed legislation is highly flawed, some version of the bill is likely to pass in Congress. A nearly identical bill has been introduced in the House. Working with Legislative Affairs, OFAC has prepared comments upon S. 1171 and has briefed the Senate and committee staffs about IEEPA, the SDNT program against the Colombian cartels, and the procedural deficiencies we find in

the approach contained in S. 1171.

III. Enforcement's Comprehensive Agenda

A. Law Enforcement/Professional Responsibility

1. National Threat Assessment Center Program (NTAC): Enforcement's Office of Professional Responsibility is working with the Secret Service on the implementation of this program, which is crucial to its protective intelligence mission. NTAC will provide threat assessment training for law enforcement officials; consult with law enforcement officials on complex threat assessment cases; promote information sharing among law enforcement agencies with protective responsibilities; and create and maintain a central repository of information for law enforcement agencies.

2. OMB Review of the Disparity of Funding between Treasury and Justice: Enforcement is providing information to OMB regarding areas in which there appear to be disparities in funding levels between the law enforcement bureaus of the two departments. OMB will use this information during its summer-long review of the funding issue.

3. Targeting Federal Firearms Licensee (FFLs) for Inspection: Enforcement's Office of Professional Responsibility is conducting a review of how ATF can use trace and enforcement information to better identify high-risk FFLs who may be contributing to illegal gun activity. This will help ATF better allocate its resources when selecting FFLs for examination and compliance with the Gun Control Act (GCA).

4. Youth Crime Gun Interdiction Initiative: Enforcement's Office of Professional Responsibility is ensuring that ATF's implementation of the YCGII program meets its goals. This includes the preparation of an improved annual report and in-house analytic capability; the hiring and placement of new YCGII agents; assisting in enlisting 10 additional cities into the program; and ensuring progress in computerizing trace requests by state and local law enforcement, and responses to them.

5. Roll-out of Project LEAD: Project LEAD is a computer system that identifies potential sources of illegal firearms trafficking. Enforcement's Office of Professional Responsibility is ensuring that ATF fully deploys the system; allows local police departments to have access to this database – either through field agents or regional gun centers that are under development by ATF; and that the system's analytic capabilities and uses continue to improve.

6. National Tracing Center (NTC) Infrastructure: To ensure that the NTC's gun tracing system is effective in providing timely and accurate gun trace results to federal and local law enforcement entities, and develops an analytic capacity to meet enforcement and regulatory needs, Enforcement's Office of Professional Responsibility is working with ATF in a number of areas, including studying possible enhancements to the Firearms Tracing System (FTS); reviewing the retention of firearms trace and multiple sales records; and looking for ways to improve the collection of out-of-business records.

7. Organized Crime Drug Enforcement Task Force (OCDETF) Programs: Prior to FY 1998, the Treasury agencies -- ATF, Customs, and IRS -- received funding for the OCDETF program through a reimbursable agreement with the Department of Justice (DOJ). In FY 1998, Treasury began receiving OCDETF funding in the Treasury appropriation. In FY 1999, Enforcement's Office of Professional Responsibility began a review of Treasury's participation in the OCDETF program to ensure that the Treasury bureaus have appropriate procedures and practices in place regarding use of OCDETF funds. Currently, Treasury is analyzing the disparity in FTE and OCDETF funding between DOJ and Treasury. Although Treasury is involved in an equal number of investigations, it receives only one-fourth of the funding that DOJ receives. We are working to resolve this disparity. See also, discussion of item 2, above.

8. Customs EEO Implementation Working Group: Enforcement initiated a review of the Customs Headquarters' Office of Equal Opportunity (EEO Office) in March 1998. The review resulted in 13 recommendations involving the reporting relationship and staffing of the EEO Office; the effectiveness of the EEO Office in coordinating its activities with other staff offices; and the evaluation of the effectiveness of Customs Headquarters EEO officials in providing guidance and advice to Customs' managers. An Implementation Working Group headed by Enforcement is closely monitoring the implementation of each of these recommendations.

9. Financial Crimes Enforcement Network Personnel Resources Review: In March 1999, Enforcement, in conjunction with the Office of Personnel Policy (OPP), conducted a series of meetings with Financial Crimes Enforcement Network (FinCEN) employees to discuss employee concerns. During these meetings, several personnel issues were discussed. Enforcement requested that the OPP conduct an assessment of FinCEN's personnel staffing operation to ensure that personnel practices are in compliance with Federal and Department policies and procedures. When OPP's review is completed, Enforcement will oversee the implementation of any necessary changes.

10. Assistance to D.C.'s Metropolitan Police Department: Treasury and Justice have organized an interagency law enforcement working group for training assistance for D.C. Metropolitan police officers. The Treasury/Justice working group has focused its efforts on completing the following projects by the end of the summer: assisting with the development of training standards for the D.C. Metropolitan Police Training Academy; providing special training for Metropolitan police officers; and providing Y2K technical assistance in special areas of the police department.

11. Volunteer Support for the D.C. Schools: The Departments of Treasury and Education are co-chairing an effort within the Federal government to provide volunteer support for the D.C. Schools. Under Secretary Johnson and Leslie Thornton, Chief of Staff, Department of Education, have met with D.C. Schools Superintendent Ackerman to discuss and agree on best practices for aiding D.C. schools. Staff from the Departments of Treasury and Education are working to complete the following initiatives before school opens in August 1999: consolidate the Clinton Administration volunteer responses to D.C. schools under one administrator in the Federal government; and develop a pool of volunteers from Federal departments to match requests from D. C. schools.

12. Interagency Committee on Women In Federal Law Enforcement (ICWIFLE): ICWIFLE is a task force created by the Office of Personnel Management in 1978 to study the reasons for the low number of women entering federal law enforcement. In 1983, Treasury and Justice became joint sponsors of the organization. In 1998, it was discovered that ICWIFLE was operating as a hybrid organization -- part government, part private -- raising a number of legal issues. As a result, Treasury and Justice must decide what type of official relationship they should have with ICWIFLE in the future. Enforcement, working closely with the General Counsel's Office, has established a working group of bureau and chief counsel representatives to formulate the Department's position on the future of ICWIFLE.

13. FLETC Implementation Working Group: In October 1997, the Office of Enforcement contracted with Booz-Allen & Hamilton to conduct a management assessment of the Federal Law Enforcement Training Center (FLETC). To ensure that the report's recommendations are implemented in a thorough and timely manner, the Under Secretary established an Implementation Working Group (IWG), chaired by Assistant Secretary Elisabeth Bresee. The IWG provides oversight ensuring that the assessment's recommendations result in positive change within FLETC.

14. International Law Enforcement Academy (ILEA): Treasury participates with Justice and State in the development and operation of a series of ILEAs in Budapest, Bangkok and Latin America (ILEA South). Treasury is directly responsible for management of ILEA South. The State Department's FY 1999 appropriation bill provided that ILEA South should be located in Roswell, New Mexico. We are still working with Congress, Justice and State to resolve the location of ILEA South. Additionally, an ILEA for Africa is currently being developed.

B. Tariff and Trade

1. Alcohol: Enforcement is working on an initiative to raise problems of alcohol abuse as a factor in ATF regulatory policy, and to include information on hazards of underage drinking in appropriate publications and speeches.

C. Foreign Assets Control

1. Licensing Services. OFAC has developed a comprehensive strategic plan to optimize licensing procedures to raise the level of timeliness and quality of service to the public in its licensing function in support of U.S. foreign policy objectives.

2. Implementation of Presidential Agricultural/Medical Initiative. OFAC is developing regulations and procedures to implement the President's decision of April 28 to exempt exports of food and medicine from unilaterally imposed embargoes. Following receipt of State policy guidance on July 7, OFAC is preparing procedures to permit sales of U.S. agricultural exports from the current harvest cycle.

3. Specially Designated Nationals Identification. OFAC has several ongoing initiatives to identify additional narcotics traffickers, terrorists, and target country entities for inclusion on its list of Specially Designated Nationals (which includes "Specially Designated Narcotics Traffickers" and "Specially Designated Terrorists"). These lists publicly expose the entities OFAC has determined to be owned or controlled by, or acting on behalf of, sanctions targets named in Presidential Executive Orders.

4. Serbia/Kosovo. OFAC is working closely with the State Department in its coordination efforts with the E.U. to continue pressuring President Milosevic in Yugoslavia by identifying and disrupting his sources of funding.

IV. Unaddressed Issues

A. Law Enforcement/Professional Responsibility

1. <u>Firearms: Guns and alcohol</u>. Enforcement does not foresee itself as being able to review the links between alcohol abuse and gun misuse.

2. <u>Firearms: Guns and advertising</u>. Enforcement does not foresee itself as being able to review issues of gun labeling and advertising.

TREASURY CLEARANCE SHEET NO.________

DATE:7/12/99

MEMORANDUM FOR: x ☐ SECRETARY DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY

☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER

FROM: James E. Johnson
SUBJECT: Office of Enforcement Transition Issues Memorandum
REVIEW OFFICES (Check when office clears)

- ☐ Under Secretary for Finance
  - ☐ Domestic Finance
  - ☐ Economic Policy
  - ☐ Fiscal
    - ☐ FMS
    - ☐ Public Debt
- ☐ Under Secretary for International Affairs
  - ☐ International Affairs
- ☐ Enforcement
  - ☐ ATF
  - ☐ Customs
  - ☐ Secret Service
- ☐ General Counsel
- ☐ Inspector General
- ☐ IRS
- ☐ Legislative Affairs
- ☐ Management
- ☐ OCC
- ☐ Policy Management
- ☐ Public Affairs/Liaison
- ☐ FLETC
- ☐ Treasurer
  - ☐ E & P
  - ☐ Mint
  - ☐ Savings Bonds
- ☐ Other
- ☐ Scheduling
- ☐ Tax Policy

Name	Initial	Date	Office	Tel. No.
Claire Wellington	CSW	7/12/99	Enforcement	622-1162
REVIEWERS				
David Medina			DAS (Enf. Policy)	622-0300
Karen Wehner			DAS (Law Enforcement)	622-0240
John Simpson			DAS (Tariff & Trade)	622-1426
Pam Hicks			Senior Advisor	622-6953
Susan Ginsburg			Senior Advisor	622-1496
Elisabeth Bresee			Assistant Secretary	622-0240
James E. Johnson			Under Secretary	622-0200

SPECIAL INSTRUCTIONS

* Simultaneous clearance. Final is due by 2:00 today.

Thanks,
Claire