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Part 4

TITLE IV OF THE TRADE AND INTERNATIONAL ECONOMIC POLICY REFORM ACT OF 1987

APRIL 6, 1987.—Ordered to be printed

Mr. ST GERMAIN, from the Committee on Banking, Finance and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL, MINORITY DISSENTING, AND ADDITIONAL MINORITY DISSENTING VIEWS

[To accompany H.R. 3, which on January 6, 1987, was referred jointly to the Committees on Ways and Means, Agriculture, Banking, Finance and Urban Affairs, Education and Labor, Energy and Commerce, and Foreign Affairs]

[Including cost estimate of the Congressional Budget Office]

The Committee on Banking, Finance and Urban Affairs, to whom was referred the bill (H.R. 3) to enhance the competitiveness of American industry, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out title IV and insert in lieu thereof the following:

TITLE IV—BANKING COMMITTEE PROVISIONS

Subtitle A—Competitive Exchange Rate Act of 1987

SEC. 401. SHORT TITLE.

This subtitle may be cited as the "Competitive Exchange Rate Act of 1987".

71-487

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SEC. 402. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress hereby finds that—

(1) the continuing United States merchandise trade deficit, which reached $170,000,000,000 in 1986, jeopardizes the competitive position of many United States industries;

(2) the agriculture and basic manufacturing sectors of the economy and even the best firms in the high technology industry and service sector are losing markets to foreign competitors which, once lost, are not easily regained;

(3) an important factor contributing to our current trade crisis has been the United States dollar, the rise in which over earlier years contributed substantially to our current trade deficit;

(4) the United States has gone from being a net creditor nation to being a net debtor nation and is rapidly continuing to go further into debt;

(5) a sudden and severe drop in the dollar would reignite inflation and increase interest rates;

(6) fundamental misalignments and erratic fluctuations in exchange rates frustrate business and government planning;

(7) a relatively stable exchange rate for the dollar at competitive levels is desirable and should be encouraged;

(8) coordinated intervention which is reinforced by changes in domestic economic policy can, under appropriate circumstances, shift exchange rates in desirable directions;

(9) the policies of major trade competitors that tie their currencies to the United States dollar continue to create serious competitive problems for United States industries;

(10) the actual exchange rate of the dollar cannot be brought into alignment with its competitive exchange rate unless—

(A) the Federal budget deficit is reduced;

(B) some modification is made in the existing international exchange rate system; and

(C) the macroeconomic policies of the major industrialized nations are well coordinated;

(11) under appropriate circumstances, it would be useful to supplement the efforts described in paragraph (10) with appropriate strategic intervention by the United States in foreign exchange markets as part of a coordinated international strategic intervention effort involving the other major industrialized countries;

(12) the Secretary of the Treasury and the Board of Governors of the Federal Reserve System should, when appropriate—

(A) cooperate with the other major industrialized countries in the international currency markets; and

(B) use appropriate strategic intervention to the extent required to achieve and maintain the exchange rate of the dollar at a level that reflects international competitive relationships;

(13) the Secretary of the Treasury has major responsibility within the executive branch for—

(A) formulating domestic economic policy;

(B) representing the United States in international economic negotiations regarding exchange rates and coordination of domestic economic policies; and

(C) intervening on behalf of the United States in currency markets; and

(14) developments such as the September 22, 1985, meeting of the United States, Japan, West Germany, France, and the United Kingdom (commonly known as the Group of Five) and the February 1987, meeting of the major industrialized countries are promising examples of the viability of international negotiations and coordination in regard to exchange rate issues and should be encouraged.

(b) PURPOSES.—The purposes of this subtitle are—

(1) to encourage the President to seek to confer and negotiate with other countries to recommend proposals to modify the exchange rate system so as to obtain—

(A) better coordination of macroeconomic policies; and

(B) greater stability in trade and current account balances and in the exchange rates of the dollar and other currencies;

(2) to encourage internationally coordinated strategic intervention in currency markets, when appropriate, in order to adjust the exchange rates of the dollar and other currencies so as to ensure that American industry is competitive in world markets; and

(3) to increase the accountability of the President for the impact of exchange rates on trade competitiveness.

SEC. 403. INTERNATIONAL NEGOTIATIONS ON EXCHANGE RATE REFORM.

(a) POLICY.—A priority of the United States in international economic negotiations shall be the achievement of a competitive exchange rate for the dollar.

(b) INTERNATIONAL NEGOTIATIONS ON EXCHANGE RATES.—The President shall seek to confer and negotiate with other countries on the exchange rate system, either through a newly created mechanism or an existing mechanism such as the International Monetary Fund or the Organization for Economic Cooperation and Development—

(1) to review the functioning of the existing international exchange rate system;

(2) to develop a program for modification of that system to provide for long-term exchange rate stability and an agenda for implementing such program; and

(3) to recommend proposals to achieve—

(A) better coordination of macroeconomic policies of the major industrialized nations; and

(B) greater stability in trade and current account balances and in the exchange rates of the dollar and other currencies.

(c) BILATERAL NEGOTIATIONS.—When the actual exchange rate of a major trade competitor is depressed below its competitive exchange rate through any formal or informal tie of its currency to the United States dollar, the President shall take action to initiate bilateral negotiations on an expedited basis for the purpose of ensur-

ing that such competitor regularly and promptly adjusts the rate of exchange between its currency and the United States dollar to accurately reflect international competitive relationships.

SEC. 404. CURRENCY INTERVENTION.

(a) PURCHASES AND SALES OF FOREIGN CURRENCY.—The Secretary, in consultation with the Chairman of the Board, shall, as appropriate, purchase and sell foreign currencies at such times as any such purchase or sale would be most effective and in such amounts as will not expose the Treasury to unacceptable losses—

(1) to offset speculative movements of the actual exchange rate of the dollar away from its competitive exchange rate; or

(2) to assist the gradual movement of the actual exchange rate of the dollar toward its competitive exchange rate.

(b) INTERNATIONAL COORDINATION.—Purchases and sales under subsection (a) shall be coordinated with other countries to the extent possible.

SEC. 405. REPORTING REQUIREMENTS.

(a) REPORTS REQUIRED.—In furtherance of the purposes of this subtitle, the Secretary, after consultation with the Chairman of the Board, shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate, within 30 days of the enactment of this subtitle and on April 20 and September 20 of each year thereafter, independent written reports.

(b) CONTENTS OF REPORT.—Each report submitted under subsection (a) shall contain—

(1) an assessment of exchange rate market developments and the relationship between the United States dollar and the currencies of our major trade competitors;

(2) an evaluation of the conditions responsible for the existing conditions in the exchange rate market;

(3) an assessment of the impact of the exchange rate of the United States dollar on—

(A) the ability of the United States to maintain a sustainable balance in its current account and merchandise trade account;

(B) production, employment, and the international competitive performance of United States manufacturing, agricultural, and mining industries; and

(C) potential increases in inflation and interest rates as a result of a severe decline in the dollar;

(4) recommendations for changing United States economic policy in order to attain an appropriate and sustainable balance in the current account, together with an assessment of the costs and benefits which would accompany any such change;

(5) any recommendation for changes in United States policies which was made by the International Monetary Fund on the occasion of the most recent consultation requested by such Fund under article IV of the Fund's Articles of Agreement, together with an explanation of how the Secretary has implemented or plans to implement any such recommendations or why it is economically sound to ignore any such recommendation;

(6) a report on any progress made by the Secretary and any other officer or employee of the United States (in the United States or abroad) in any effort undertaken to—

(A) adjust the actual exchange rate of the dollar toward a value more consistent with a sustainable balance in the United States current account, including the effect of any intervention in foreign exchange markets on such actual exchange rate;

(B) achieve modifications of the international exchange rate system to reduce instability and disequilibrium in exchange rates; and

(C) negotiate with major trade competitors under section 403(c);

(7) a statement of the objectives and plans of the Secretary with respect to—

(A) the pursuit of domestic economic policies which are consistent with the achievement of an appropriate and sustainable current account balance;

(B) the policy on intervention in foreign exchange markets;

(C) any negotiations with other countries on any reform in the international exchange rate system; and

(D) any negotiations with major trade competitors under section 403(c),

including any obstacles that would delay any progress with regard to any such objective or plan;

(8) an assessment of the overall effectiveness of currency intervention undertaken to adjust the actual exchange rate of the dollar; and

(9) a detailed statement of the reasons for any lack of progress regarding international negotiations on modifications of the exchange rate system.

(c) COUNTRY-BY-COUNTRY ANALYSIS TO BE INCLUDED IN REPORT.—Each report under subsection (a) shall also contain an analysis of—

(1) the extent to which the actual exchange rate of the currency of each major trade competitor of the United States differs from a value consistent with underlying international competitive relationships; and

(2) any trend or policy which affects any such exchange rate or the international capital flows between or among any such countries and the United States.

(d) FEDERAL RESERVE REPORT.—The Board of Governors of the Federal Reserve System may, as it deems appropriate, submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate independent reports on any of the issues described in subsection (b) or (c).

(e) CONSULTATION WITH CONGRESS.—The Secretary shall consult with the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate on the report after the report has been received by the respective committees. After receiving such report and consulting with the Secretary, each such Committee shall

submit to its respective body a report containing its views and recommendations with respect to the Secretary's intended policies.

SEC. 406. REPORT ON CAPITAL FLOWS.

The Secretary, after consultation with the Chairman of the Board, shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate annual statistical reports on international capital flows and the impact of such flows on exchange rates and trade flows.

SEC. 407. CONGRESSIONAL RECOGNITION OF THE RECOMMENDATIONS OF THE INTERNATIONAL MONETARY FUND.

Upon completion of any consultation with the United States requested by the International Monetary Fund under article IV of the Fund's Articles of Agreement, the Secretary shall transmit to the Congress—

(1) all official United States documents submitted to the Fund in the course of that consultation; and

(2) all official Fund documents arising from that consultation.

SEC. 408. DEFINITIONS.

For purposes of this subtitle—

(1) SECRETARY.—The term "Secretary" means the Secretary of the Treasury.

(2) BOARD.—The term "Board" means the Board of Governors of the Federal Reserve System.

(3) COMPETITIVE EXCHANGE RATE.—The term "competitive exchange rate" means the set of exchange rates that would be consistent with an appropriate and sustainable balance in the current account, as determined by the Secretary based on an appropriate methodology that takes into account the appropriate factors which provide the most opportune prospect for economic growth.

(4) MAJOR TRADE COMPETITOR.—The term "major trade competitor" means Japan, West Germany, Canada, Italy, France, the Republic of Korea, Taiwan, Singapore, and any other country with which the United States has substantial bilateral trade competition or bilateral capital flows.

Subtitle B—Third World Debt Management Act

CHAPTER 1—SHORT TITLE; FINDINGS; PURPOSES; AND DEFINITIONS

SEC. 411. SHORT TITLE.

This subtitle may be cited as the "Third World Debt Management Act".

SEC. 412. FINDINGS.

The Congress hereby finds the following:

(1) The international debt crisis threatens the safety and soundness of the international financial system, the international trading system, and the economic development of the debtor countries.

(2) Over the past 5 years, the debt service requirements and the virtual cessation of new voluntary commercial bank lending to heavily indebted developing countries have resulted in massive net transfers of capital from such countries to creditor banks.

(3) While heavily indebted developing countries have enacted austerity programs, substantially reducing their consumption, these programs have contributed to negative economic growth, declining standards of living, and increased political instability in many emerging democracies.

(4) The austerity programs enacted by the debtor countries have adversely affected the trading position of the United States.

(5) The austerity policies enacted by the debtor countries have resulted in commodity gluts and price deflation within the international trading system, thus increasing instability within the international financial system.

(6) In order for the United States trade deficit to decline, substantial growth must occur on an international scale, particularly in the developing countries.

(7) Current policies and existing mechanisms for resolving the debt crisis have failed to produce adequate new capital flows in part because of the constraints imposed by the old debt.

(8) A resolution of the current international debt problem will require—

(A) an increase in the flow of private capital in both debt and equity form, to the developing countries; and

(B) an increase in the role played by the public sector and the commercial financial institutions in providing assistance to the developing countries and in managing the international debt situation.

(9) The World Bank, the International Monetary Fund and the regional multilateral development banks are appropriate institutions to help coordinate the international efforts to resolve the current developing country debt situation, but to succeed, the multilateral financial institutions will—

(A) require additional resources;

(B) need to develop more innovative lending practices; and

(C) need to continue to have the political support of the United States.

SEC. 413. PURPOSES.

The purposes of this subtitle are as follows:

(1) Alleviate the current international debt crisis in order to make the debt situation of developing countries more manageable and permit the resumption of sustained growth in those countries.

(2) Expand the world trading system and raise the level of exports from the United States to the developing countries in order to reduce the United States trade deficit and foster economic expansion and an increase in the standard of living throughout the world.

(3) Increase the stability of the world financial system and ensure the safety and soundness of United States depository institutions.

(4) Provide a clear statement of support for a United States debt initiative for the heavily indebted developing countries, including an expanded role for the World Bank, other multilateral development banks, and the International Monetary Fund in resolving the current debt crisis and achieving sustained growth and development for the developing nations.

(5) Provide explicit directions to the President and the Secretary of the Treasury about the initiatives which should be undertaken by the United States to resolve the international debt crisis and achieve the twin goals of enhancing the stability of the world financial system and expanding world trade and development.

SEC. 414. DEFINITIONS.

For purposes of this subtitle—

(1) MULTILATERAL DEVELOPMENT BANK.—The term "multilateral development bank" means the International Bank for Reconstruction and Development, the Inter-American Development Bank, the African Development Bank, and the Asian Development Bank.

(2) WORLD BANK.—The term "World Bank" means the International Bank for Reconstruction and Development.

(3) STRUCTURAL ADJUSTMENT LENDING.—The term "structural adjustment lending" means lending for broad macroeconomic stability and in support of structural economic reforms, including lending for trade liberalization, mobilization of domestic and foreign capital, and institutional reform to expand the private sector.

(4) TRADE LIBERALIZATION.—The term "trade liberalization" means the reduction of tariff and nontariff barriers to imports and the reduction of barriers to foreign direct and portfolio investment.

CHAPTER 2—INTERNATIONAL DEBT MANAGEMENT AND ECONOMIC GROWTH

SEC. 421. LIMITED PURPOSE SPECIAL DRAWING RIGHTS FOR THE POOREST HEAVILY INDEBTED COUNTRIES.

(a) STUDY REQUIRED.—

(1) IN GENERAL.—The Secretary of the Treasury, in consultation with the directors and staff of the International Monetary Fund and such other interested parties as the Secretary may determine to be appropriate, shall conduct a study of the feasibility and the efficacy of reducing the international debt of the poorest of the heavily indebted countries through a one-time allocation by the International Monetary Fund of limited purpose Special Drawing Rights to such countries in accordance with a plan which provides that—

(A) the allocation be made without regard to the quota established for any such country under the Articles of Agreement of the Fund;

(B) limited purpose Special Drawing Rights be used only to repay official debt of any such country;

(C) the allocation of limited purpose Special Drawing Rights to any such country not be treated as an allocation on which such country must pay interest to the Fund; and

(D) the use of limited purpose Special Drawing Rights by any such country to repay official debt shall be treated as an allocation of regular Special Drawing Rights to the creditor.

(2) ADDITIONAL FACTORS TO BE STUDIED.—The study required under paragraph (1) shall include the following:

(A) To the extent the creation and allocation of the limited purpose Special Drawing Rights described in paragraph (1) would require an amendment of the Articles of Agreement of the International Monetary Fund, an assessment of the period of time within which such amendment could be ratified by the member nations, based on discussions with the major members of the Fund.

(B) An assessment of other means for achieving the objectives of principal and interest reduction on official debt of the poorest heavily indebted countries through the use of Special Drawing Rights.

(C) A comparative evaluation of proposals of other members of the International Monetary Fund, the directors and staff of the Fund, and other interested parties.

(D) An analysis of the effect the implementation of the provisions in paragraph (1) would have on bilateral and multilateral lenders, the international monetary system, and such other provisions of this Act as may be appropriate.

(E) A comparative analysis of the available alternatives identified under subparagraph (B) or (C).

(b) REPORT REQUIRED.—Before the end of the 3-month period beginning on the date of the enactment of this Act, the Secretary of the Treasury shall submit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate containing the findings and conclusions of the Secretary pursuant to the study required under subsection (a), together with—

(1) the recommendation of the Secretary as to which, of all the alternatives for providing relief for the poorest of the heavily indebted countries which were assessed in connection with such study, represents the best available option; and

(2) recommendations for such legislation and administrative action as the Secretary determines to be necessary and appropriate to implement such option.

SEC. 422. PROVISIONS RELATING TO THE REGULATION OF DEPOSITORY INSTITUTIONS.

(a) REGULATORY OBJECTIVES.—It is the sense of the Congress that regulations prescribed by Federal banking regulatory agencies which affect the international assets of United States commercial banks should grant the widest possible latitude to the banks for negotiat-

ing principal and interest reductions with respect to obligations of heavily indebted sovereign borrowers.

(b) FLEXIBILITY IN DEBT RESTRUCTURING.—It is the intent of the Congress that, in applying generally accepted accounting standards, Federal agencies which regulate and oversee the operations of depository institutions (within the meaning given to such term by clauses (i) through (vi) of section 19(b)(1)(A) of the Federal Reserve Act) apply to such institutions maximum flexibility in determining the asset value of restructured loans to heavily indebted sovereign borrowers and in accounting for the effects of such restructuring prospectively.

(c) RECAPITALIZATION.—It is the intent of the Congress that Federal agencies which regulate and oversee the operations of depository institutions (within the meaning given to such term by clauses (i) through (vi) of section 19(b)(1)(A) of the Federal Reserve Act) should require depository institutions with substantial amounts of loans to heavily indebted sovereign borrowers to seek, as appropriate, expanded recapitalization through equity financing to ensure that prudent institutional capital-to-total asset ratios are established and maintained.

(d) RESERVES FOR LOAN LOSSES.—It is the intent of the Congress that Federal agencies which regulate and oversee the operations of depository institutions (within the meaning given to such term by clauses (i) through (vi) of section 19(b)(1)(A) of the Federal Reserve Act) should seek to ensure that appropriate levels of reserves be established by depository institutions engaged in substantial lending to heavily indebted sovereign borrowers in accordance with both the credit and country risks associated with such lending.

(e) REGULATORY STUDY.—

(1) STUDY REQUIRED.—The Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation shall each conduct a study to determine the extent of any regulatory obstacle to negotiated reductions in the debt service obligations associated with sovereign debt.

(2) SPECIFIC FACTORS TO BE STUDIED.—The study required under paragraph (1) shall include the following:

(A) An analysis of regulatory obstacles to negotiated interest reduction.

(B) An analysis of regulatory obstacles to the sale of loans at discount.

(C) An analysis of regulatory and accounting obstacles to the amortization of loan losses.

(D) An analysis of the statutory and regulatory changes which would be required to allow banks to sell some sovereign debt at a discount without decreasing the asset value of other loans to the same borrower, to the extent that—

(i) the borrower receives the full benefit of any discount recognized on such sale; and

(ii) the quality of any other outstanding loan of such borrower is enhanced by the sale.

(E) An analysis of—

(i) the manner in which and the extent to which other member nations of the Organization for Econom-

ic Cooperation and Development engage in country risk analysis with respect to loans to heavily indebted sovereign borrowers; and

(ii) the extent to which statutory or regulatory provisions or prevailing banking practices in such countries require banks in such countries to allocate specific amounts to reserves against losses on loans to heavily indebted sovereign borrowers on the basis of such country risk analysis or on any other country-by-country basis.

(F) An analysis of—

(i) the prevailing banking practices in the United States with respect to allocations to reserves against losses on loans to heavily indebted sovereign borrowers and the basis on which any such allocation is made; and

(ii) the extent to which the prevailing banking practices in the United States would warrant a statutory or regulatory requirement, including any amendment to the International Lending Supervision Act of 1983 which may be necessary for such purpose, that domestic banks make specific allocations to reserves against losses on loans to heavily indebted sovereign borrowers on the basis of country risk analysis or on such other country-by-country basis as may be determined to be appropriate.

(G) An analysis of the profitability of sovereign lending to developing countries during the 10-year period beginning on January 1, 1976, as determined from the reports of condition, financial statements, and such other reports which the Secretary determines to be appropriate of the 9 largest banking organizations in the United States in terms of total financial assets, including the amount of, and the percentage of, the total net profits of each such banking organization which were derived from transactions with debtor countries, taking into account all income of each such banking organization which was derived, directly or indirectly, from interest, rescheduling fees, and other related fees, costs, or expenses paid by any debtor country to such banking organization in connection with sovereign debt.

(H) An analysis of the actions taken by less developed countries during the period referred to in subparagraph (G) which resulted in the assumption of liability by such countries for loans originally made by such banking organizations to private borrowers in such countries, the aggregate amount of loans which became sovereign debt (with respect to each such country), and the extent to which the assumption of liability for private loans by such countries was a condition imposed by any such banking organization for entering into a rescheduling agreement with such country with respect to any other sovereign debt.

(I) An estimate of the impact the legislative recommendations contained in the report required under paragraph (3)

would have had on the profitability of the banking organizations described in subparagraph (G) if such recommendations had been in effect during the period referred to in such subparagraph.

(3) REPORT REQUIRED.—Before the end of the 6-month period beginning on the date of the enactment of this Act, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation shall each transmit a report to the Congress containing the findings and conclusions of each such agency with respect to the study required under paragraph (1), together with any recommendations concerning legislation which such agency determines to be necessary or appropriate to remove regulatory obstacles to negotiated reductions in the debt service obligations associated with sovereign debt.

(4) DEFINITIONS.—For purposes of paragraph (2)(G)—

(A) BANKING ORGANIZATION.—The term "banking organization" means a bank holding company (within the meaning given to such term by section 2(a)(1) of the Bank Holding Company Act of 1956) or an insured bank (within the meaning given to such term by section 3(h) of the Federal Deposit Insurance Act).

(B) TOTAL FINANCIAL ASSETS.—The term "total financial assets" means the total consolidated financial assets of any banking organization as determined by the Secretary of the Treasury.

SEC. 423. NEGOTIATIONS TO ESTABLISH AN INTERNATIONAL DEBT MANAGEMENT AUTHORITY TO ADDRESS SOVEREIGN DEBT.

(a) NEGOTIATIONS REQUIRED.—The Secretary of the Treasury shall initiate negotiations with industrialized countries and such developing countries as the Secretary may determine to be appropriate to propose the establishment of a multilateral financial intermediary, which would be authorized to—

(1) purchase sovereign debt of less developed countries from private creditors;

(2) enter into negotiations with the debtor countries for the purpose of restructuring the debt in order to—

(A) ease the current debt service burden on the debtor countries; and

(B) provide additional opportunities for economic growth in both debtor and industrialized countries;

(3) assist the creditor banks in the voluntary disposition of their Third World loan portfolio; and

(4) encourage Germany, Japan, and other trade surplus nations to increase their investments in the debtor countries.

(b) SPECIFIC PROPOSALS.—In any negotiations initiated under subsection (a), the Secretary should include the following specific proposals:

(1) The participating countries agree to the establishment of an international debt management authority which would be authorized to purchase sovereign debt of less developed countries at an appropriate discount.

(2) The participating countries agree that the authority be authorized to negotiate with the debtor country whose sovereign debt the authority has purchased for purposes of achieving an agreement for retiring or restructuring such debt. These negotiations might include—

(A) allowing the repurchase of the debt by the debtor country at the price paid under paragraph (1);

(B) allowing the debtor country to swap equity assets for the debt;

(C) allowing the authority to repackage the debt instruments into securities; and

(D) allowing the authority to hold the renegotiated debt as the creditor of the borrowing country.

(3) The participating countries agree that, in conjunction with negotiations referred to in subsection (a), that any assistance for restructuring or retiring developing country debt be made contingent upon—

(A) conditions within such countries ensuring a minimization of capital flight; and

(B) the submission of an economic management plan, including the development, where appropriate, of a minimum wage standard, by the debtor country which is acceptable to the international debt management authority, consistent with sustained economic growth, and calculated to enable the debtor country to meet its restructured debt obligations.

(4) The participating countries agree that the authority be authorized to—

(A) issue debentures, bonds, or other obligations for the purchases of debt instruments described in paragraph (1);

(B) invest the funds obtained by the authority through the sale of any debt instruments, equity assets, or securities under paragraph (2) in such securities or other obligations as the participating countries may prescribe, including obligations of the Treasury of the United States and the governments of other participating countries, which shall be held by the authority as security to assure the repayment of the obligations issued under subparagraph (A); and

(C) use any amount earned on investments described in subparagraph (B) to pay the interest or other financing costs incurred on, or in connection with, the obligations issued under subparagraph (A).

(5) The participating countries agree that the management of the authority will be under a governing board composed of such members as the participating countries may provide in such agreement.

(6) The participating countries agree to make such changes in the regulations and procedures applicable to the banks of each such country and the sovereign debt held by such banks as may be necessary to facilitate the operation of the international debt management authority.

(c) INTERIM REPORTS.—At the end of the 3-month period beginning on the date of the enactment of this Act and every 3 months thereafter, the Secretary of the Treasury shall submit a report on the progress being made in negotiations described in subsection (a)

to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate.

(d) FINAL REPORT.—Upon the conclusion of negotiations described in subsection (a), the Secretary shall submit a report containing a detailed description of the agreement of the participating countries to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate, together with such recommendations for enabling legislation which the Secretary may determine to be necessary or appropriate for the implementation of the agreement.

(e) INSURANCE FUND.—The Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System shall jointly submit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate on the feasibility of the creation of an insurance fund—

(1) which would be financed through transaction fees imposed on the acquisitions of commercial debt by the international debt management authority;

(2) the assets of which would be invested by the authority to provide capital to insure against any ultimate default by debtor countries on such restructured or securitized obligations of any such country as may be sold to new investors through the intermediary action of the authority.

SEC. 424. ACTION BY MULTILATERAL INSTITUTIONS.

(a) COLLATERAL STUDY OF INTERNATIONAL DEBT MANAGEMENT AUTHORITY.—In order to potentially facilitate the rapid creation of the international debt management authority described in section 423, the Secretary shall direct—

(1) the United States Executive Director of the International Bank for Reconstruction and Development to—

(A) determine the amount of, and alternative methods by which, liquid assets controlled by such Bank and not currently committed to any loan program which, subject to action by its Board of Governors, could be pledged as collateral to obtain financing for the activities of the authority described in section 423; and

(B) report the results of such determination to the Secretary before the end of the 60-day period beginning on the date of the enactment of this Act; and

(2) the United States Executive Director of the International Monetary Fund to—

(A) determine the amount of, and alternative methods by which, gold stock of the Fund which, subject to action by its Board of Governors, could be pledged as collateral to obtain financing for the activities of the authority described in section 423; and

(B) report the results of such determination to the Secretary before the end of the 60-day period beginning on the date of the enactment of this Act.

(b) SENSE OF CONGRESS.—It is the sense of the Congress that the need for capitalization will be reduced given the role of the intermediary as market facilitator.

(c) FAIR ACCESS OF UNITED STATES FIRMS TO MDB PROCUREMENT.—The Secretary of the Treasury shall instruct the United States Executive Directors of the multilateral development banks—

(1) to take actions to assure that United States firms are fully informed of bidding opportunities in countries receiving loans from the respective banks;

(2) to take actions to assure that United States firms can focus on projects in which they have a particular interest or competitive advantage and to permit them to compete and have an equal opportunity in submitting timely and conforming bidding documents;

(3) to thoroughly investigate any complaints from United States bidders about the awarding of multilateral development bank procurement contracts to ensure that all multilateral development bank contract procedures and rules are observed and that United States firms are treated fairly; and

(4) to promote opportunities for exports of goods and services from the United States.

(d) APPOINTMENT OF FOREIGN COMMERCIAL OFFICERS.—

(1) APPOINTMENT.—The Secretary of the Treasury, in conjunction with the Secretary of Commerce, shall appoint a foreign commercial officer to serve with each of the United States Executive Directors of multilateral development banks.

(2) DUTIES OF OFFICERS.—It shall be the duty of each foreign commercial officer to assist the United States Executive Director with respect to whom such officer has been appointed in carrying out the duties of such Executive Director described in subsection (c).

SEC. 425. REDUCING CAPITAL FLIGHT.

(a) SENSE OF THE CONGRESS.—It is the sense of the Congress that—

(1) past and continuing transfers of capital from developing countries pose a problem of great importance for which a solution must be found before the international debt crisis can be resolved and economic growth in developing countries can be enhanced and sustained; and

(2) the United States Executive Director of the International Bank for Reconstruction and Development should—

(A) initiate discussions with other directors of the Bank for the purpose of developing policy proposals for both developed countries and developing countries, respectively, which, if implemented, would reduce the level of capital transfers from the developing countries by enhancing incentives to invest in developing countries and thereby reduce the impact of such capital flight on the economies of such countries; and

(B) report any such proposal which is applicable with respect to the United States to the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System.

(b) INSTRUCTIONS TO UNITED STATES EXECUTIVE DIRECTORS OF MULTILATERAL DEVELOPMENT BANKS.—The Secretary of the Treasury shall instruct the United States Executive Directors of the multilateral development banks to initiate discussions with other directors of their respective banks and to propose that each such bank increase lending for the purpose of reforming the financial sectors of indebted developing countries with particular emphasis on increases in loans for activities which would have the effect of enlarging the capital markets and encouraging domestic savings in those countries.

SEC. 426. STUDY AND REPORT ON CERTAIN INTERNATIONAL MONETARY FUND ACTIVITIES.

(a) STUDY REQUIRED.—The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to conduct a study on—

(1) the impact the Fund's economic adjustment programs have on the political stability of less developed country democracies;

(2) the role the Fund intends to play in resolving the less developed country debt crisis; and

(3) the implementation of policies described in section 49 of the Bretton Woods Agreements Act.

(b) SPECIFIC FACTORS TO BE STUDIED.—The study required under subsection (a) shall include the following:

(1) An analysis of any action the International Monetary Fund has taken to secure adequate financing for less developed countries through commercial banks and international financial institutions.

(2) An assessment of the Fund's handling of the less developed country debt crisis with particular emphasis on the Fund's standby program with major debtor countries, including an analysis of the Fund's role in the new policy framework established jointly by the Fund and the International Bank for Reconstruction and Development.

(3) In connection with the consideration of the effects the Fund's economic adjustment programs have on less developed country democracies, an analysis of the effect, including any negative effect, such programs have on any such country's ability to—

(A) create jobs;

(B) promote an equitable distribution of income;

(C) satisfy basic human needs and provide social assistance programs for all its citizens, particularly the economically disadvantaged; and

(D) promote democratic principles and ideals as well as political stability.

(c) CONSULTATION WITH OTHER EXECUTIVE DIRECTORS.—The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to consult with other di-

rectors of the Fund, especially directors from less developed country democracies, and such other experts and consultants with specific knowledge of the Fund and its programs as the director may determine to be appropriate in conducting the study required under subsection (a).

(d) REPORT REQUIRED.—Before the end of the 6-month period beginning on the date of the enactment of this Act, the Secretary of the Treasury shall submit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate containing the findings and conclusions of the United States Executive Director of the International Monetary Fund pursuant to the study required under subsection (a).

SEC. 427. STRUCTURAL ADJUSTMENT LENDING.

(a) DIRECTIONS TO UNITED STATES EXECUTIVE DIRECTOR OF THE WORLD BANK.—In order to promote the economic policy adjustments which are needed to assist developing countries, the Secretary of the Treasury shall instruct the United States Executive Director of the World Bank to initiate discussions with other directors of the bank and to propose that—

(1) appropriate action be taken by the bank to ensure that the aims of structural adjustment lending can be achieved;

(2) the conditionality of structural adjustment lending include innovative requirements designed to minimize any adverse impact of such lending on the lowest income groups in the developing countries, including evaluation and action to remove legal and regulatory barriers to credit for microenterprises; and

(3) appropriate action be taken by the bank to ensure that structural adjustment lending is consistent with or promotes environmentally sound and responsible development practices that lead to sustainable long-term management of the natural resources of these countries.

(b) SMALL-SCALE CREDIT.—The Secretary of the Treasury shall instruct the United States Executive Director of the World Bank or, if the Secretary determines such action to be appropriate, with the United States Executive Directors of each of the other multilateral banks to enter into negotiations with the other directors of the respective bank and to propose mechanisms, including coordination with and innovative use of indigenous nongovernmental organizations and private financial institutions as intermediaries, for purposes of making small-scale credit available to lower income groups in developing countries which have had no access to such credit.

(c) REPORT BY THE SECRETARY OF THE TREASURY.—

(1) REPORT REQUIRED.—The Secretary of the Treasury shall, before the end of the 1-year period beginning on the date of the enactment of this subtitle and in conjunction with and consultation with the United States Executive Director of the World Bank, prepare and submit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate on the effectiveness of increased reliance on structural adjustment lending as a means of achieving economic reforms.

(2) CONTENTS OF REPORT.—The report prepared under paragraph (1) shall include—

(A) information about the extent to which structural adjustment lending has increased domestic savings rates, liberalized trade, encouraged direct investment in developing countries, and reduced capital flight; and

(B) economic and demographic data on the impact of structural adjustment lending on various income groups within the recipient countries, particularly the impact of such lending on the provision of resources to meet the basic human needs of the lowest income groups, including the need for adequate nutrition and basic health care.

SEC. 428. EQUAL ACCESS TO GOVERNMENT DEBT INSTRUMENTS REQUIRED.

(a) FINDINGS.—The Congress hereby finds the following:

(1) United States companies can successfully compete in foreign markets if they are given fair access to foreign markets.

(2) A trade surplus in services could offset the deficit in manufactured goods and help lower the overall trade deficit significantly.

(3) In a recent offering of 20-year Japanese Government bonds, 11 United States firms were excluded entirely from the primary underwriting syndicate and were allocated a combined total of less than 1 percent of the offering by members of the primary syndicate.

(4) In contrast to the barriers faced by United States firms in Japan, Japanese firms have enjoyed access to United States markets on the same exact terms as United States firms.

(5) United States firms seeking to compete in Japan face a variety of discriminatory barriers which effectively preclude such firms from fairly competing for Japanese business, including—

(A) limitations on membership on the Tokyo Stock Exchange;

(B) high fixed commission rates (ranging as high as 80 percent) which must be paid to members of the exchange by nonmembers for executing trades;

(C) arbitrarily applied employment requirements for opening branch offices; and

(D) long delays in processing applications and granting approvals for licenses to operate.

(b) DESIGNATION OF CERTAIN PERSONS AS PRIMARY DEALERS PROHIBITED.—The Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York may not designate, and may not permit the continuation of any prior designation of, any person of a foreign country as a primary dealer in government debt instruments if such foreign country does not allow, or ceases to allow, United States companies equal access in the acquisition of government debt instruments issued by such country.

(c) DEFINITIONS.—For purposes of subsection (b)—

(1) PERSON OF A FOREIGN COUNTRY.—A person is a person of a foreign country if such person, or any other person which owns or controls (directly or indirectly) such person, is a resident of a foreign country, is organized under the laws of a foreign country, or has its principal place of business in a foreign country.

(2) Equal Access.—A country allows United States companies equal access in the acquisition of government debt instruments issued by such country if such companies may act in a capacity which—

(A) allows the companies to gain access to such instruments upon original issue; and

(B) is substantially equivalent to a designation as primary dealer in government debt instruments by the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York.

(d) Effective Date.—This section shall take effect at the end of the 6-month period beginning on the date of the enactment of this Act.

CHAPTER 3—ENSURING THE STABILITY OF THE INTERNATIONAL FINANCIAL SYSTEM

SEC. 431. PRIVATE CAPITAL SOURCES FOR DEVELOPING NATIONS.

(a) Study Required.—The Secretary of the Treasury, working in conjunction with—

(1) the Chairman of the Board of Governors of the Federal Reserve System;

(2) the Comptroller of the Currency;

(3) accountants, lawyers, bankers, and consultants with special knowledge of international finance; and

(4) representatives of the governments and central banks of Japan, West Germany, France, the United Kingdom, Italy, Canada, and Switzerland,

shall explore the changes in the structure of United States capital markets and the regulation of private financial institutions which would be necessary in order to bring about a lasting resolution of the international debt crisis in a manner which is consistent with both increased growth in debtor nations and increased stability of the United States financial system.

(b) Topics To Be Included in Study.—The study conducted by the Secretary of the Treasury shall include an analysis of the following proposals:

(1) Statutory or regulatory changes which may be appropriate to encourage the growth of a secondary market in developing country debt.

(2) Payment of a portion of the debt service obligations of developing countries in local currencies.

(3) Analysis of the effect debt relief would have on market valuation of stocks of commercial banks and the stability of the financial system.

(4) Evaluation of changes which would be required in the tax laws of the United States to encourage commercial banks to engage in less developed country debt forgiveness.

(5) Feasibility of establishing a national debt discount facility and analysis of sources of funds for the capitalization and operation of such facility.

(6) Examination of the regulatory, tax, and accounting environment which has encouraged greater recognition of loan losses by banks located in other countries.

(7) Evaluation of any potential role for the Bank for International Settlements in resolving the debt crisis.

(8) Feasibility of achieving, in an efficient and effective manner, an expansion of the secondary market for less developed country debt and further reductions in commercial bank holdings of such debt by encouraging commercial banks which hold such debt to repackage or pool the debt instruments (with respect to such debt) and sell, to private investors—

(A) the repackaged obligations or participation shares in such obligations; or

(B) securities or participation shares collateralized by any such pooled obligations.

(9) Evaluation of any other options which would have the effect of increasing the utilization of domestic and international capital markets in addition to the commercial banks to provide capital for developing nations.

(10) Evaluation of the market for debt-equity swaps in the major less developed debtor countries.

(c) REPORT TO CONGRESS.—The Secretary of the Treasury, in conjunction with the Chairman of the Board of Governors of the Federal Reserve System and the Comptroller of the Currency, shall prepare and submit a report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate before the end of the 6-month period beginning on the date of the enactment of this subtitle on the advisability of implementing any of the proposals analyzed in the study conducted pursuant to subsection (a) together with any recommendation of such Secretary for legislation which the Congress should consider.

SEC. 432. MOBILIZATION OF PRIVATE CAPITAL.

(a) MULTILATERAL DEVELOPMENT BANK ACTION.—The Secretary of the Treasury shall instruct the United States Executive Directors of the multilateral development banks to initiate discussions with other directors of their respective banks and to propose that—

(1) greater use of cofinancing be made by each such bank to encourage increased commercial bank participation in lending by such bank; and

(2) steps be taken to make credits available to satisfy the capital needs of private, income-generating, small businesses or microenterprises owned by the very poorest individuals in the developing countries.

(b) INCREASE IN THE ROLE OF THE WORLD BANK AND THE IMF AS INTERMEDIARIES.—The Secretary of the Treasury shall instruct the United States Executive Director of the International Bank for Reconstruction and Development and the United States Executive Director of the International Monetary Fund to initiate discussions with other directors of the Bank or Fund, as the case may be, and to propose that steps be taken to increase the role of the Bank and the Fund, respectively, as an intermediary and coordinator in generating new capital and creating new capital instruments, particularly drawing on world securities and capital markets, for the benefit of developing countries.

SEC. 433. MORE FLEXIBLE PROCEDURES FOR RESCHEDULING OF DEBT SERVICE PAYMENTS FOR LESS DEVELOPED COUNTRIES.

(a) PURPOSE.—The purpose of this section is to make all banking institutions aware of existing options which such institutions may utilize in rescheduling debt service on debts of less developed countries, including the advance of additional funds, debt forgiveness, interest reduction or forgiveness, debt-equity swaps, or any combination of the preceding options.

(b) ESTABLISHMENT OF GUIDELINES REQUIRED.—After the parties to any negotiations relating to the rescheduling of any commercial debt of any eligible country which involves the provision of new financial resources to such country have determined the amount of appropriate debt relief for such country with respect to such debt (for the period for which such rescheduling is applicable), the Secretary of the Treasury and each appropriate Federal banking agency shall jointly—

(1) establish guidelines that allow banking institutions which—

(A) have outstanding loans to the eligible country; and

(B) decide to participate in the rescheduling of debt,

to provide such institution's negotiated share of the amount of debt relief determined pursuant to such negotiations through any existing options available to banking institutions, including the options described in subsection (c); and

(2) establish guidelines for determining the amount of debt relief which such banking institution can provide under each option described in subsection (c) in order to provide its negotiated share of debt relief.

(c) OPTIONS AVAILABLE UNDER RESCHEDULING PROCEDURES.—The options referred to in subsection (b) with respect to providing debt relief are as follows:

(1) ADVANCE OF ADDITIONAL FUNDS.—A banking institution may provide its negotiated share of debt relief through an advance of additional funds.

(2) DEBT FORGIVENESS.—A banking institution may provide its negotiated share of debt relief by recognizing as loss, and not requiring the repayment of, an amount of principal on any loan or loan participation (which is subject to rescheduling).

(3) INTEREST REDUCTION OR FORGIVENESS.—A banking institution may provide its negotiated share of debt relief by reducing or forgiving entirely the payment of interest on any loan or loan participation (which is subject to rescheduling).

(4) DEBT-EQUITY SWAPS.—A banking institution may provide its negotiated share of debt relief through the sale of, or a commitment to sell, any loan (which is subject to rescheduling) at a discount to a third party interested in redeeming such loan in the local currency of the debtor country in exchange for equity assets in such country.

(5) ANY COMBINATION OF AVAILABLE OPTIONS.—A banking institution may provide its negotiated share of debt relief through any combination of available options, including the options described in paragraphs (1) through (4), to the extent the total amount of debt relief which is realized through the exercise of

such combination of options is equal to the amount of such institution's negotiated share of debt relief.

(d) DEFINITIONS.—For purposes of this section—

(1) APPROPRIATE FEDERAL BANKING AGENCY.—The term "appropriate Federal banking agency" has the meaning given to such term in section 903(1) of the International Lending Supervisory Act of 1983.

(2) BANKING INSTITUTION.—The term "banking institution" has the meaning given to such term in section 903(2) of the International Lending Supervisory Act of 1983.

(3) DEBT RELIEF.—The term "debt relief" means any reduction in debt service on a loan that is achieved through—

(A) an advance of additional funds; or

(B) a reduction in the amount the debtor is otherwise obligated to pay under the terms of the loan.

(4) ELIGIBLE COUNTRY.—The term "eligible country" means a heavily indebted, less developed country.

CHAPTER 4—MULTILATERAL INVESTMENT GUARANTEE AGENCY

SEC. 436. SHORT TITLE.

This chapter may be cited as the "Multilateral Investment Guarantee Agency Act".

SEC. 437. ACCEPTANCE OF MEMBERSHIP.

The President is hereby authorized to accept membership for the United States in the Multilateral Investment Guarantee Agency (hereinafter in this chapter referred to as the "Agency") provided for by the Convention Establishing the Multilateral Investment Guarantee Agency (hereinafter in this chapter referred to as the "Convention") deposited in the archives of the International Bank for Reconstruction and Development (hereinafter in this chapter referred to as the "Bank").

SEC. 438. GOVERNOR AND ALTERNATE GOVERNOR.

The Governor and Alternate Governor of the Bank, appointed under section 3 of the Bretton Woods Agreements Act, shall serve as Governor and Alternate Governor, respectively, of the Agency.

SEC. 439. APPLICABILITY OF BRETTON WOODS AGREEMENTS ACT.

The provisions of section 4 of the Bretton Woods Agreements Act shall apply with respect to the Agency to the same extent as such provisions apply to the Bank and the International Monetary Fund. Reports with respect to the Agency under paragraphs (5) and (6) of section 4(b) of such Act shall be included in the reports made pursuant to such paragraphs after the date the United States accepts membership in the Agency.

SEC. 440. RESTRICTIONS.

Unless authorized by law, neither the President nor any person or agency shall, on behalf of the United States—

(1) subscribe to additional shares of stock of the Agency;

(2) vote for or agree to any amendment of the Convention which increases the obligations of the United States, or which changes the purpose or functions of the Agency; or

(3) make a loan or provide other financing to the Agency.

SEC. 441. FEDERAL RESERVE BANKS AS DEPOSITARIES.

Any Federal Reserve bank which is requested to do so by the Agency shall act as its depositary or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

SEC. 442. SUBSCRIPTION OF STOCK.

(a) AUTHORIZATION OF SUBSCRIPTION.—The Secretary of the Treasury is authorized to subscribe on behalf of the United States to 20,519 shares of the capital stock of the Agency, except that the subscription shall be effective only to such extent or in such amounts as are provided in advance in appropriations Acts.

(b) AUTHORIZATION OF APPROPRIATION.—In order to pay for the United States subscription authorized in subsection (a), there are authorized to be appropriated, without fiscal year limitation, $222,015,580, for payment by the Secretary of the Treasury, except that not more than $22,000,000 is authorized to be appropriated for paid-in capital for fiscal year 1988.

(c) DIVIDENDS.—Any payment of dividends made to the United States by the Agency shall be deposited into the Treasury as a miscellaneous receipt.

SEC. 443. JURISDICTION OF UNITED STATES COURTS AND ENFORCEMENT OF ARBITRAL AWARDS.

(a) VENUE.—For the purposes of any civil action which may be brought within the United States, its territories or possessions, or the Commonwealth of Puerto Rico, by or against the Agency in accordance with the Convention (including an action brought to enforce an arbitral award against the Agency), the Agency shall be deemed to be an inhabitant of the Federal judicial district in which—

(1) its principal office within the United States is located; or

(2) its agent appointed for the purpose of accepting service or notice of service is located.

(b) JURISDICTION.—Any action described in subsection (a) to which the agency is a party shall be deemed to arise under the laws of the United States. The district courts of the United States, including the courts enumerated in section 460 of title 28, United States Code, shall have original jurisdiction of any such action.

(c) REMOVAL.—Whenever the Agency is a defendant in any action in a State court, it may at any time before the trial thereof remove the action into the appropriate district court of the United States in the manner provided in section 1446 of title 28, United States Code.

SEC. 444. FORCE AND EFFECT OF CONVENTION.

Articles 43 through 48 of the Convention shall have full force and effect in the United States, its territories and possessions, and the Commonwealth of Puerto Rico, upon the entry into force of the Convention for the United States.

SEC. 445. FULL FAITH AND CREDIT FOR ARBITRAL AWARDS; JURISDICTION.

(a) IN GENERAL.—Any award of an arbitral tribunal resolving a dispute arising under Article 57 or Article 58 of the Convention shall create a right arising under a treaty of the United States. The

pecuniary obligations imposed by such an award shall be enforced and shall be given the same full faith and credit as if the award were a final judgment of a court of general jurisdiction of one of the several States. The provisions of title 9, United States Code, shall not apply to enforcement of awards rendered pursuant to the Convention.

(b) JURISDICTION.—The district courts of the United States (including the courts enumerated in section 460 of title 28, United States Code) shall have exclusive jurisdiction over actions and proceedings under subsection (a), regardless of the amount in controversy.

CHAPTER 5—INTER-AMERICAN DEVELOPMENT BANK

SEC. 446. MERGER OF INTER-REGIONAL AND ORDINARY CAPITAL.

The Inter-American Development Bank Act (22 U.S.C. 283) is amended by adding at the end thereof the following new section:

"SEC. 32. The United States Governor of the Inter-American Development Bank is hereby authorized to agree to and to accept the amendments to the Articles of Agreement in the proposed resolution entitled 'Merger of Inter-regional and Ordinary Capital Resources'.".

SEC. 447. WAIVER OF COUNTRY PROGRAM LIMITATIONS UNDER NEW REPLENISHMENT AGREEMENT UNDER CERTAIN CONDITIONS.

The Secretary of the Treasury shall instruct the United States Executive Director of the Inter-American Development Bank to initiate discussions with other directors of such bank and to propose that a provision be included in any replenishment agreement which is negotiated after the date of enactment of this subtitle which would allow the directors of such bank to waive any country program limitation contained in such replenishment agreement if the directors determine that—

(1) the waiver would not deprive any other country of any resources which are available under such agreement for such country; and

(2) the country for which the waiver would be made has—

(A) a need for the resources which the waiver would make available; and

(B) the capacity to absorb such additional resources.

Subtitle C—COMPETITIVE TRADING PRACTICES

SEC. 451. AMENDMENTS TO TRADE AND DEVELOPMENT ENHANCEMENT ACT OF 1983.

(a) FUNCTIONS OF NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES.—Section 646(a)(2) of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635s(a)(2)) is amended by striking out "without the unanimous consent of the members of the National Advisory Council on International Monetary and Financial Policies" and inserting in lieu thereof "unless a majority of the members of the National Advisory Council on International Monetary and Financial Policies approve the financing".

(b) REPORT TO CONGRESS AND TERMINATION OF ACT.—The Trade and Development Enhancement Act of 1983 is amended by adding at the end the following new sections:

"SEC. 648. REPORT TO CONGRESS.

"The President shall transmit to the Congress, on a semiannual basis, a report setting forth the activities carried out under sections 644 and 645. Each such report shall include—

"(1) information on applications used by the Export-Import Bank and the Agency for International Development for making assistance available under sections 644 and 645;

"(2) information on the disposition of such applications;

"(3) an identification of the foreign governments whose behavior the President is trying to influence by the use of such assistance, and an explanation of why the assistance involved is deemed likely to influence that behavior;

"(4) evidence that clearly demonstrates that assistance under sections 644 and 645 has been used for the purposes of this Act;

"(5) information on any progress that has been made in negotiations on agreements within the Organization for Economic Cooperation and Development to limit the use of tied aid credits;

"(6) information on the extent to which tied aid credits are being used at the time of such report by major trading countries within such Organization, the terms of any such credits, and the market sectors with respect to which such credits are being used; and

"(7) information on the extent to which assistance under this Act has been effective—

"(A) in discouraging the use of tied aid credits for commercial purposes by other countries; and

"(B) in helping to protect United States exporters from unfair and predacious official export competition.

"SEC. 649. TERMINATION OF AUTHORITIES.

"The authorities contained in this Act shall cease to be effective at the end of the 90-day period beginning on the date the President transmits to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate the President's certification that a majority of the members of the National Advisory Council on International and Monetary Financial Policies have determined that—

"(1) the United States has reached an agreement with the governments of the other member countries of the Organization for Economic Cooperation and Development which ends abuse of tied aid credits in pursuit of national commercial benefits; and

"(2) those governments are honoring the terms of that agreement.".

(c) FUNDING BY THE AGENCY FOR INTERNATIONAL DEVELOPMENT.—Section 645(d) of the Trade and Development Enhancement Act of 1983 (12 U.S.C. 635r(d)) is amended by striking out "allocated for Commodity Import Programs".

SEC. 452. PROVISIONS RELATING TO EXPORT-IMPORT BANK.

(a) FINDINGS.—The Congress hereby finds that—

(1) the debt position of many developing countries has placed serious limitations on the ability of these countries to import;

(2) commercial banks have largely withdrawn from financing exports, shutting out American exporters from already shrinking less developed country markets;

(3) the changing nature of international transactions means that United States exporters require financing in riskier markets and on transactions which are smaller and more difficult to put together and close;

(4) given these changes, it is important for the Export-Import Bank of the United States to increase its ability to assume a broader range of explicitly-defined country and transaction risks and to encourage the private sector to do the same; and

(5) at the same time, it is important that the Export-Import Bank maintain its ability to operate efficiently and in a fiscally responsible fashion.

(b) PURPOSE.—It is the purpose of this section to require the Export-Import Bank of the United States to identify changes in policy and specific changes in financing programs administered by the Bank that would facilitate additional financing of United States exports to debt-burdened developing countries as part of an overall debt management strategy.

(c) REPORT REQUIRED.—(1) Before the end of the 90-day period beginning on the date of the enactment of this Act, the President and Chairman of the Export-Import Bank of the United States shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate a written report which contains the following:

(A) An assessment of the effectiveness of recent program changes in increasing United States exports to developing countries;

(B) An identification of additional specific policy and program changes which—

(i) would enable the Bank to increase the financing of United States exports to developing countries; and

(ii) would encourage greater private sector participation in such financing efforts;

(C) An assessment of the viability and cost of the programs identified in subparagraph (B).

(2) The report required under paragraph (1) shall specifically assess the viability of—

(A) setting up a separate class of programs for the major debt burdened countries through which these countries or United States exports to these countries would receive preferential treatment;

(B) introducing a less stringent standard of repayment in regard to debt burdened countries; and

(C) expanding the guarantee authority of the Export-Import Bank in order to allow the Bank to assume part of the exposure of commercial banks to debtor countries as part of a program to

provide Export-Import Bank guarantees for new loans in support of United States exports.

Subtitle D—Council on Industrial Competitiveness Act

SEC. 461. SHORT TITLE.

This subtitle may be cited as the "Council on Industrial Competitiveness Act".

SEC. 462. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress hereby finds that—

(1) the preeminence of the United States in international trade and competition is seriously threatened and the insulation of United States domestic markets from international competition is at an end;

(2) the United States has been slow to accept and adapt to the reality of a highly competitive global marketplace and to regard the economic development of competing countries as a challenge and an opportunity for its own economic growth;

(3) some major consequences of this failure to adapt are unnecessary plant closings, high unemployment, a deterioration in the quality of jobs available for American workers and a sharp decline in the level of exports of agricultural commodities;

(4) to be successful in the world arena, the United States must address the erosion of the comparative advantage of its basic industries in a number of areas, including innovation, investment, and productivity;

(5) efforts to reverse the decline of American industry have been hindered by a number of factors, including—

(A) a long-term decline in relative productivity growth;

(B) insufficient capital investment in the revitalization of basic industries and in the commercialization and diffusion of new technologies;

(C) a lack of adequate capital to invest in smaller, innovative firms;

(D) insufficient investment in civilian research and development in comparison with our major competitors;

(E) a series of systemic inefficiencies in the management and organization of business, including adversarial labor-management relations and short-term time horizons; and

(F) a serious erosion in the institutional support for production, including a lack of high quality domestic and international economic data needed to—

(i) reveal sectoral strengths and weaknesses;

(ii) identify potential new markets and future trends; and

(iii) provide necessary information regarding the industrial strategies of our foreign competitors;

(6) helping to support the competitiveness of United States industries is a proper and necessary role for government, working with the private sector;

(7) at present, industrial policy in the United States is composed of a variety of Government programs, subsidies, and regulatory oversight functions which often are not coordinated, cohesive, or consistent;

(8) while our economy benefits when business, labor, government, academia, and public interest groups work together cooperatively, there exists no effective, high-level forum for developing a consensus on economic policies;

(9) the decline in United States industrial competitiveness endangers the economic stability of the Nation;

(10) such decline also endangers the ability of the United States to maintain the defense industrial base which is necessary to the national security of the United States;

(11) progress on the issue of competitiveness requires a recognition that the world is moving rapidly toward the creation of an integrated and interdependent economy, a world economy in which the policies of one nation have a major impact on other nations;

(12) effective management of such an integrated world economy requires a significant increase in multilateral solutions to such issues as trade, tax, investment, and the distribution of world markets and world production;

(13) effective participation by the United States in this process has been inhibited by the lack of specific mechanisms—

(A) to identify the problems of particular industries and sectors; and

(B) to develop specific solutions to those sectoral problems within the broader range of national economic policies;

(14) such lack of specific mechanisms has been particularly harmful to those labor intensive industries which must compete with very low wages paid in foreign countries;

(15) it is now imperative that Government, business, labor, academia, and public interest groups act together to develop and coordinate long-range strategies for helping to assure the international competitiveness of United States industries; and

(16) such strategies should be balanced by—

(A) encouraging the development of emerging industries which can provide substantial economic growth and employment; and

(B) directing resources into the revitalization of mature and supporting industries.

(b) PURPOSE.—It is the purpose of this subtitle—

(1) to develop recommendations for long-range strategies for promoting the international competitiveness of United States industries; and

(2) to establish the Council on Industrial Competitiveness which will—

(A) gather and analyze information regarding the competitiveness of United States industries and business and trade policy;

(B) create an institutional forum where national leaders with experience and background in business, labor, government, academia, and public interest activities will—

(i) identify economic problems inhibiting the competitiveness of United States agriculture, business, and industry;

(ii) develop long-term strategies to address such problems; and

(iii) create a broad consensus in support of such strategies; and

(C) make recommendations on issues crucial to the development of coordinated agricultural, business, industrial, and trade strategies.

SEC. 463. COUNCIL ESTABLISHED.

There is established in the Executive Office of the President an advisory committee to be known as the Council on Industrial Competitiveness.

SEC. 464. DUTIES OF THE COUNCIL.

The duties of the Council are—

(1) to develop and promote, in cooperation with appropriate Federal agencies and other organizations, policies which enhance the productivity and international competitiveness of United States industries;

(2) upon the request of the President, to review private sector requests for governmental assistance or relief and to recommend, as a condition of such assistance or relief, those actions of the private sector which will help ensure that the applicant involved, by receiving the assistance or relief, will become internationally competitive in the future;

(3) to work with appropriate Federal agencies and other organizations to identify current foreign markets for United States goods and services, to identify future market opportunities and trends in foreign markets, and to develop appropriate strategies for the penetration of such markets by United States agricultural producers, businesses, and industries;

(4) to collect and analyze relevant domestic and international data from appropriate Federal agencies and other organizations concerning current and future economic trends and market opportunities;

(5) to prepare and publish reports containing the recommendations of the Council with respect to trade and international competitiveness opportunities;

(6) to create forums where national leaders with experience and background in business, labor, academia, public interest activities, and Government will—

(A) identify national economic problems;

(B) develop recommendations to address such problems; and

(C) create a broad consensus in support of such recommendations;

(7) to annually report to the President and the Congress—

(A) on the state of the national economy;

(B) on the status of major sectors of the national economy; and

(C) on the effect of existing Government policies on agriculture, business, and industry;

(8) to provide policy recommendations and guidance to the Congress, the President, the Council of Economic Advisers, and the Federal departments and agencies regarding specific issues concerning agricultural, business, and industrial strategies; and

(9) to evaluate existing Government policies and business practices in terms of the competitive impact of such policies and practices.

SEC. 465. MEMBERSHIP.

(a) NUMBER AND APPOINTMENT.—

(1) IN GENERAL.—The Council shall be composed of 16 members appointed by the President, after consideration of such recommendations as may be submitted by the Speaker of the House of Representatives and the Majority Leader of the Senate, from among individuals who are specially qualified to serve on the Council by virtue of their education, training, or experience and their broad understanding of the United States economy and the United States position in the world economy.

(2) REPRESENTATION ON COUNCIL.—Of the members appointed under paragraph (1)—

(A) 4 members shall be appointed from among national leaders with experience and background in agriculture, business, or industry, including at least one individual selected from the small business community;

(B) 4 members shall be appointed from among national leaders with experience and background in the labor community;

(C) 4 members shall be appointed from among national leaders with experience and background in the academic community or who have been active in public interest activities; and

(D) 4 members shall be appointed from among the heads of Federal departments or agencies and representatives of State or local governments.

(3) INITIAL APPOINTMENT OF MEMBERS.—The President shall appoint all the initial members of the Council before the end of the 60-day period beginning on the date of the enactment of this Act.

(b) VACANCIES.—

(1) A vacancy in the Council shall be filled in the same manner in which the original appointment was made.

(2) Any member appointed to fill a vacancy occurring before the expiration of the term for which such member's predecessor was appointed shall be appointed only for the remainder of such term.

(3) A member may serve after the expiration of such member's term until such member's successor has taken office.

(c) REMOVAL.—Members of the Council may be removed by the President only for malfeasance in office.

(d) TERMS.—

(1) LENGTH OF TERM.—All members described in subparagraphs (A), (B), (C), or (D) of subsection (a)(2) shall serve terms which correspond to the term of office of the President who appointed such members.

(2) MAXIMUM NUMBER OF TERMS.—No member may serve more than two consecutive terms.

(e) BASIC PAY.—

(1) APPOINTMENTS FROM PRIVATE SECTOR.—Each member of the Council who is not otherwise in the service of the Government of the United States or any State or local government—

(A) shall receive a sum not to exceed an amount equivalent to the compensation paid at level II of the Executive Schedule, pursuant to section 5313 of title 5, United States Code, prorated on a daily basis for each day spent in the work of the Council; and

(B) shall be paid actual travel expenses, and per diem in lieu of subsistence expenses when away from his usual place of residence, in accordance with section 5703 of such title.

(2) APPOINTMENTS FROM PUBLIC SECTOR.—Each member of the Council who is otherwise in the service of the Government of the United States or any State or local government shall serve without compensation in addition to that received for such other service, but while engaged in the work of the Council shall be paid actual travel expenses, and per diem in lieu of subsistence expenses when away from his usual place of residence, in accordance with subchapter 1 of chapter 57 of title 5, United States Code.

(f) QUORUM.—

(1) IN GENERAL.—Nine members of the Council constitute a quorum, except that a lesser number may hold hearings if such action is approved by a two-thirds vote of the entire Council.

(2) INITIAL ORGANIZATION.—The Council shall not commence its duties until all the members described in subparagraphs (A), (B), or (C) of subsection (a)(2) have been appointed and have qualified.

(g) CHAIRPERSON.—The Council shall elect, by a two-thirds vote of the entire Council, a Chairperson from among the members described in subparagraphs (A), (B), or (C) of subsection (a)(2).

(h) MEETINGS.—The Council shall meet at the call of the Chairperson or a majority of its members, except that the Council shall meet not less than six times during each calendar year.

(i) POLICY ACTIONS.—Except as provided in subsection (h), no action establishing policy shall be taken by the Council unless approved by two-thirds of the entire membership of the Council.

(j) AGENTS, ETC., OF FOREIGN COUNTRIES INELIGIBLE FOR APPOINTMENT OR SERVICE AS MEMBERS.—

(1) PROHIBITION ON APPOINTMENT.—An individual may not be appointed as a member of the Council if, at any time within the 1-year period ending on the date on which any such appointment would otherwise be effective, such individual has acted as an agent or attorney for, or performed any other professional service for or on behalf of, the government of any foreign country, any agency or instrumentality of the government of a foreign country, or any foreign political party.

(2) PROHIBITION ON CONTINUED SERVICE AFTER APPOINTMENT.—If, after an individual is appointed as a member of the Council, such individual acts or performs in any manner or ca-

pacity described in paragraph (1), such individual shall cease to be a member of the Council as of the date such individual acts or performs in such manner or capacity.

(3) PROHIBITION ON EMPLOYMENT AS FOREIGN AGENT AFTER SERVICE.—

(A) IN GENERAL.—No former member of the Council appointed under subsection (a)(2)(D), Executive Director, or member of professional staff of the Council may, within 1 year of the termination of such service or employment, act as an agent or attorney for, or perform any other professional service for or on behalf of, the government of any foreign country, any agency or instrumentality of the government of a foreign country, any corporation controlled by a foreign government, or any foreign political party in any particular matter that was actually pending within the area of responsibility of such member, Executive Director, or employee during the 1-year period ending on the date of termination of such service or employment.

(B) ENFORCEMENT.—Any person who violates subparagraph (A) shall be subject to a civil penalty not to exceed the greater of $250,000 or the amount of compensation received for the prohibited conduct. The Attorney General may bring an action to recover a penalty under this subparagraph in an appropriate district court of the United States against any such person. Any such violation shall be established by a preponderance of evidence.

SEC. 466. EXECUTIVE DIRECTOR AND STAFF; EXPERTS AND CONSULTANTS.

(a) EXECUTIVE DIRECTOR.—

(1) APPOINTMENT.—The principal administrative officer of the Council shall be an Executive Director, who shall be appointed by the Council and who shall be paid at a rate not to exceed the rate of basic pay payable for level V of the Executive Schedule.

(2) FULL-TIME SERVICE.—The Executive Director shall serve full-time.

(b) STAFF.—Within the limitations of the Council's appropriations, the Executive Director may appoint such personnel as the Executive Director considers appropriate, subject to the provisions of title 5, United States Code, governing appointments in the competitive service, and shall be paid in accordance with the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates.

(d) EXPERTS AND CONSULTANTS.—The Council may procure temporary and intermittent services under section 3109(b) of title 5, United States Code, but at rates for individuals not to exceed the daily equivalent of the maximum annual rate of basic pay for GS–16 of the General Schedule.

(e) STAFF OF FEDERAL AGENCIES.—Upon request of the Council, the head of any Federal agency may detail, on a reimbursable basis, any of the personnel of such agency to the Council to assist the Council in carrying out its duties under this subtitle.

SEC. 467. POWERS OF THE COUNCIL.

(a) HEARINGS AND SESSIONS.—The Council may, for the purpose of carrying out the provisions of this subtitle, hold such hearings, sit and act at such times and places, take such testimony, and receive such evidence, as the Council considers appropriate.

(b) POWERS OF MEMBERS AND AGENTS.—If so authorized by the Council, any member or agent of the Council may take any action which the Council is authorized to take under this section.

(c) OBTAINING OFFICIAL DATA.—

(1)(A) The Council may secure directly from any department or agency of the United States information necessary to enable the Council to carry out the provisions of this subtitle.

(B) Upon request of the Chairman of the Council, the head of such department or agency shall furnish such information to the Council.

(2) In any case in which the Council receives any information from a department or agency of the United States, the Council shall not disclose such information to the public unless such department or agency is authorized to disclose such information pursuant to Federal law.

(d) MAILS.—The Council may use the United States mails in the same manner and under the same conditions as other departments and agencies of the United States.

(e) ADMINISTRATIVE SUPPORT SERVICES.—The Administrator of General Services shall provide to the Council, on a reimbursable basis, such administrative support services as the Council may request.

SEC. 468. REPORTS.

(a) INITIAL REPORT.—Not later than 180 days after the initial members are appointed to the Council, the Council shall submit a report to both Houses of the Congress and the President containing recommendations of the Council for—

(1) changes in any Federal policy necessary to implement effective trade and competitive strategies; and

(2) ways to provide more effective coordination of Federal programs to assist United States exporters.

(b) ANNUAL REPORT.—

(1) The Council shall annually prepare and submit to the President and to each House of the Congress a report setting forth—

(A) the major agricultural, business, and industrial development priorities of the United States;

(B) the policies needed to meet such priorities; and

(C) a summary of existing Government policies affecting industries.

(2) Such report shall contain a statement of the findings and conclusions of the Council during the previous fiscal year, together with any recommendations of the Council for such legislative or administrative actions as the Council considers appropriate.

SEC. 469. AUTHORIZATION OF APPROPRIATIONS.

There are authorized to be appropriated for fiscal year 1988 not to exceed $5,000,000 to carry out the provisions of this subtitle.

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SEC. 470. DEFINITIONS.

For purposes of this subtitle—

(1) the term "Council" means the Council on Industrial Competitiveness established under section 463;

(2) the term "member" means a member of the Council on Industrial Competitiveness; and

(3) the term "United States" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, American Samoa, and any other territory or possession of the United States.

SEC. 471. REVIEW AND EVALUATION OF TRADE NEGOTIATION CAPABILITIES.

(a) PURPOSE.—The purpose of this section is to provide for an assessment of the adequacy of our current system of appointing and hiring personnel for trade negotiation positions in the United States Government.

(b) STUDY.—In addition to the duties established under section 464, the Council shall evaluate the system for appointing United States trade negotiators and filling other positions within the United States Government which are related to trade negotiations. The study shall include the following:

(1) The identification of positions within the United States Government involving trade negotiations.

(2) The tenure of individuals holding such positions.

(3) The salary level of individuals holding such positions.

(4) The duration of varying types and levels of trade negotiations.

(5) The positions of employment, and the salary level for such positions, obtained by individuals immediately after leaving Government service in any position described in paragraph (1).

(6) The percentage of turnovers of individuals in positions described in paragraph (1) which are directly related to changes in Administration leadership.

(7) Professional advancement opportunities for United States trade negotiators within the United States Government.

(8) Recommendations on establishing a minimum tenure of service for individuals in positions within the United States Government which are related to or involve trade negotiations.

(9) Recommendations on tying promotions and salary to length of service.

(10) Recommendations on establishing a separate professional trade corps to strengthen the capabilities of United States negotiators in long-term trade disputes.

(11) Recommendations on the need to upgrade personnel in trade related positions.

(c) REPORT.—The Council shall submit a report to the President and to each House of the Congress before the end of the period described in section 468(a). The report shall contain the findings and conclusions of the Council pursuant to the study under subsection (b) and such recommendations for legislation and administrative action as the Council may determine to be appropriate.

SEC. 472. REVIEW AND COORDINATION OF FEDERAL EXPORT PROMOTION PROGRAMS.

In order to provide the most effective and efficient delivery of governmental assistance for United States exports of goods and services, the President shall direct the Secretary of Commerce and the United States Trade Representative to jointly—

(1) conduct a comprehensive investigation of the export promotion programs of the various Federal agencies and departments to better coordinate and enhance the effectiveness of such programs and report the findings and conclusions pursuant to such investigation to the Council on Industrial Competitiveness not later than 90 days after the appointment of the initial members of the Council;

(2) coordinate the administration of such export promotion programs; and

(3) establish procedures for the timely dissemination of information concerning such programs and the nature of services offered under such programs to assist United States businesses, agricultural producers, and industries to promote their exports and to achieve a higher level of competitiveness in foreign markets.

Subtitle E—Export Trading Company Amendments

SEC. 476. SHORT TITLE.

This subtitle may be cited as the "Export Trading Company Amendments of 1987".

SEC. 477. EXPORT TRADING COMPANY AMENDMENTS.

(a) PROCEDURES APPLICABLE TO DETERMINATION OF CLASSIFICATION AS EXPORT TRADING COMPANY.—Section 4(c)(14) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(c)(14)) is amended by inserting after subparagraph (F) the following new subparagraphs:

"(G) DETERMINATION OF APPLICABILITY OF CLASSIFICATION.—For purposes of determining whether an export trading company is operated principally for the purposes described in subparagraph (F)(i)—

"(i) the operations of such company during the 2-year period beginning on the date such company commences operations shall not be taken into account in making any such determination;

"(ii) not less than 4 consecutive years of operations of such company (not including any portion of the period referred to in clause (i)) shall be taken into account in making any such determination; and

"(iii) fees derived from the facilitation, outside the United States, of trade services shall be treated as revenue derived from exporting or facilitating exports to the extent—

"(I) the fees so derived are remitted to the United States; and

"(II) the aggregate amount of such fees in any year does not exceed one-half the amount of revenue actually derived from export operations or the facilitation of export services.

"(H) FACILITATION OF TRADE SERVICES.—For purposes of subparagraph (G)(iii), the term 'facilitation of trade services' means arranging for, but not performing, any trade service which would be an export trade service (under subparagraph (F)(ii)) but for the fact that such service was not provided in order to facilitate the export of any good or service produced in the United States.".

(b) LEVERAGE.—Section 4(c)(14)(A) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(c)(14)(A)) is amended by redesignating clauses (v) and (vi) as clauses (vi) and (vii), respectively, and by inserting after clause (iv) the following new clause:

"(v) LEVERAGE.—The Board may not disapprove any proposed investment solely on the basis of the anticipated or proposed asset-to-equity ratio of the export trading company with respect to which such investment is proposed, unless the anticipated or proposed annual average asset-to-equity ratio is greater than 15-to-1.".

(c) INVENTORY.—Section 4(c)(14)(A)) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(c)(14)) is amended by inserting after subparagraph (H) (as added by subsection (a) of this section) the following new subparagraph:

"(I) INVENTORY.—

"(i) NO GENERAL LIMITATION.—The Board may not prescribe by regulation any maximum dollar amount limitation on the value of goods which an export trading company may maintain in inventory at any time.

"(ii) SPECIFIC LIMITATION BY ORDER.—Notwithstanding clause (i), the Board may issue an order establishing a maximum dollar amount limitation on the value of goods which a particular export trading company may maintain in inventory at any time (after such company has been operating for a reasonable period of time) if the Board finds that, under the facts and circumstances, such limitation is necessary to prevent risks that would affect the financial or managerial resources of an investor bank holding company to an extent which would be likely to have a materially adverse effect on the safety and soundness of any subsidiary bank of such bank holding company.".

BACKGROUND

HISTORY OF THE LEGISLATION

H.R. 4800, entitled the Omnibus Trade Bill, passed the House of Representatives in 1986. However, it failed to become law, and so was referred again to the same Committees in January 1987 as H.R. 3. The banking portions of this legislation, namely Title IV of the Act, were then referred to the following subcommittees of the Banking Committee: the Subcommittee on International Development Institutions and Finance; the Subcommittee on International

Finance, Trade and Monetary Policy; and the Subcommittee on Economic Stabilization.

In early March, the Subcommittees received testimony from a number of experts including: Senator Bill Bradley; Senator Paul Sarbanes; Congressman William E. Dannemeyer; David C. Mulford, Assistant Secretary for International Affairs of the U.S. Department of the Treasury; Joan McEntee, Deputy Assistant Secretary of the U.S. Department of Commerce; John Bohn, President of Export-Import Bank; Fred Bergsten and John Williamson of Institute for International Economics; Ronald McKinnon of Stanford University; Robert Solomon of The Brookings Institution; William F. Shughart, II of Center for Study of Public Choice at George Mason University; Henry Breck, a consultant; Fantu Cheru of The American University; Richard Cohen of Washington World Analyst; Rudiger Dornbusch of Massachusetts Institute of Technology; Richard Feinberg of Overseas Development Council; Jack Guenther of Citicorp; Niles Hemboldt of Equator Bank; Peter Kenen of Princeton University; Jeffrey Sachs of Harvard University; Sally Shelton-Colby, a consultant associated with Bankers Trust; James McDermott of Keefe, Bruyette and Woods, Inc.; Paul Sacks of Multinational Strategies, Inc.; Martin Baumann of Price Waterhouse; Victor Kiam of Remington Products; Dennis W. Rich of Goodyear Tire and Rubber Co.; George Hatsopoulous of Thermo Electron Corporation; John McGee of Arthur D. Little; Paula Stern of Carnegie Institute for International Peace; Gerry Jasinowski of National Association of Manufacturers; Stuart Eizenstant of Powell, Goldwater, Frazer and Murphy; Harold Luks, an international trade specialist; Howard Samuel and Robert McGlotte of AFL–CIO; Sheldon Friedman of United Auto Workers; Kirk O'Donnell of Center for National Policy; Edward Jennings of Ohio State University; Joe Wyatt of Vanderbilt University; Kenneth Balick of Carnegie Council on Ethics and International Affairs; Willard M. Berry of National Foreign Trade Council; and Bruce Talley of Coalition for Employment Through Exports.

Each Subcommittee held its own mark-up, meeting in open session from March 17 through March 19, 1987. After adopting several amendments, each ordered the text of the proposed discussion drafts be favorably reported to the Full Committee on Banking, Finance and Urban Affairs. Under the supervision of the respective chairmen, the three Subcommittees met and melded a substitute compromise which was introduced before the Full Committee mark-up scheduled for March 25, 1987.

The Committee on Banking, Finance and Urban Affairs met in open session on March 25, 1987 where a substitute compromise draft was introduced. After adopting several amendments, the legislation was favorably reported, by a 35–15 vote to the full House of Representatives.

The substitute compromise reported out of the Banking Committee differs in substance from the language included one year earlier, due in large measure to the continued decline in the United States trade position and the impact that the developing world debt crisis has had on U.S. trade problems. The language included in the substitute compromise is carefully crafted to work toward addressing these problems.

SUBTITLE A—THE COMPETITIVE EXCHANGE RATE ACT OF 1987

THE DOLLAR AND U.S. TRADE PROBLEMS

As the trade deficit has soared, public debate has increasingly focussed on the competitive problems confronting U.S. industries in world markets. Resolving these problems is no longer a simple matter of erecting or eliminating tariff and non-tariff barriers to the free flow of goods and services. Fundamental misalignments and erratic fluctuations in currency relationships have undercut the competitiveness of U.S. industry in world markets and frustrated intelligent government and business planning.

The value of our currency is, in fact, one of the most decisive elements in determining the international competitiveness of the American economy. No efforts at resolving the competitive difficulties of U.S. industries can possibly succeed unless and until we have successfully dealt with exchange rate policy.

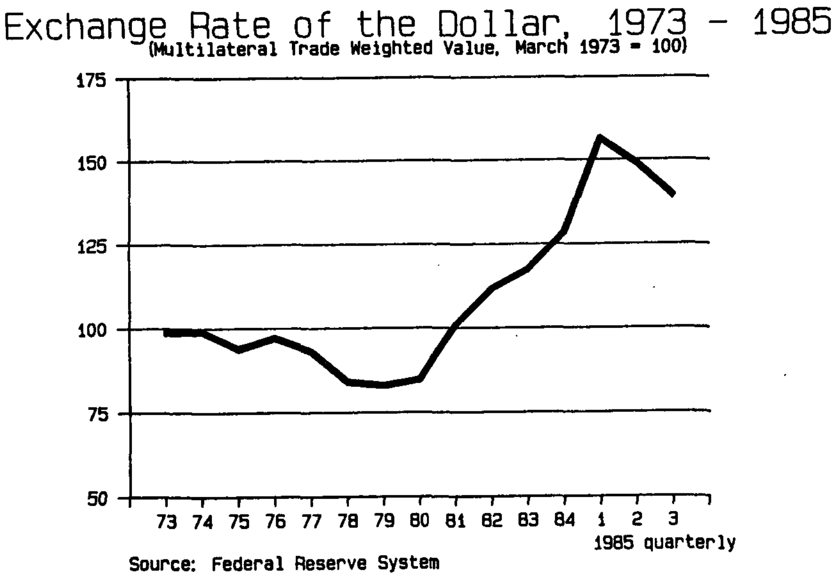
While the United States faces international competitive problems going beyond exchange rate imbalances, it is imperative that eliminating the competitive disadvantage caused by distorted currency relationships become an important economic policy goal. As Assistant Secretary David Mulford has noted

> . . . the strong dollar . . . directly contributed in a substantial way to the deterioration in our trade balance by making our goods less price competitive abroad and foreign goods more price competitive here. We estimate that the appreciation of the dollar may have accounted for one third to one half of our trade balance deterioration.

The impact on U.S. industries

The enormous rise of the dollar in the exchange markets from mid-1980 to early 1985 (shown in Chart 1) savaged major segments of the American economy, including most of agriculture and manufacturing. The resulting damage to the U.S. economy registered clearly in the trade deficit. Every percentage point of dollar overvaluation cost our trade balance about $3 billion and thus about 75,000 jobs. In 1986, the United States imported $170 billion more than it exported.

CHART 1

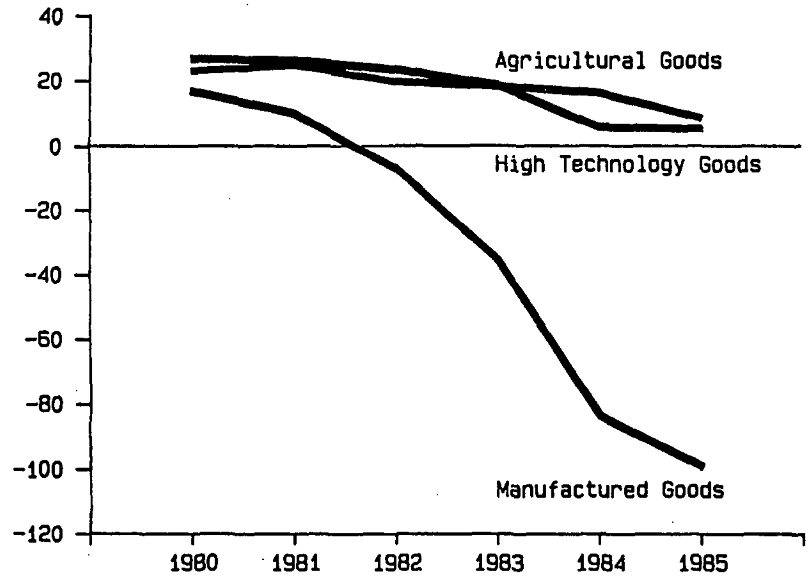


Many industries have shared in the pain of the trade deficit, as shown in Chart 2. Exports have fallen sharply while imports have soared. From basic industries to high technology industries, from agriculture to mining to manufacturing, almost all goods-producing industries have suffered setbacks in international competition. As a result, overall manufacturing has been stagnant since late 1984 while mining, agriculture, and major segments of manufacturing have been declining. Our industrial and agricultural base is weakened, with the inevitable consequences of foregone opportunities for growth and a declining standard of living.

CHART 2

U.S. Balance of Trade in Selected Products

1980 - 1985



Source: U.S. Department of Commerce (imports, c.i.f.)

The trade balance for manufacturing has dropped from a $17 billion surplus in 1980 to a $139 billion deficit in 1986. The total $156 billion deterioration over six years represents almost twenty percent of U.S. value added in the manufacturing sector.

High technology industries have lost out to foreign competition along with the rest of manufacturing. It is, in fact, in our high technology industries that we have seen the greatest erosion of our competitiveness. These industries have watched their surplus dwindle from $27 billion in 1980 to a $3 billion deficit in 1986.

Agriculture is yet another sector with a rapidly evaporating surplus. That sector enjoyed a $23 billion surplus in 1980 but had only a $4 billion surplus for 1986. That $19 billion slide in the trade balance represents more than a fifth of the current size of the agricultural sector.

It is no exaggeration to say that the serious misalignment of the dollar in past years has transformed the economic structure of this country. The strength of the dollar destroyed over 2 million jobs in our tradeable goods sector; prompted many American firms to shift their own production offshore and contemplate making their new investments abroad rather than at home; forced companies to dismantle existing export marketing and distribution systems; shifted the United States from being the world's largest creditor country to the world's largest debtor; and generated pressures for trade protection with an intensity not seen since the 1930's.

Faced with increasingly desperate trade problems, industries have responded in several ways. An increasing number have come to ask the government for help in keeping out imports. As many of those industries eventually succeed, the U.S. economy becomes distorted by protectionist measures. Long-term benefits are provided to industries on the basis of their political effectiveness rather than their economic efficiency.

Rather than seek government help, many multinational corporations responded to the high dollar by moving more of their operations abroad, either to supply this market with more imports or to replace U.S. exports. This shift will result in permanent damage to our economy since it deprives the United States not only of technologically-advanced new industrial capacity but employment and skill-building experience for our work force.

Yet another cost results from the fact that we are piling up huge debts to the rest of the world. We are financing the trade deficit by borrowing from abroad and selling our foreign assets. Official data indicated that U.S.-owned assets abroad exceeded foreign-owned assets here by $141 billion at the end of 1981. By those same figures, the United States had squandered its next egg and accumulated a net foreign debt of roughly $250 billion by the end of 1986. Currently the United States is borrowing in excess of $140 billion a year.

It will take several years for the U.S. to overcome its dependence on foreign capital inflows and return close to a balanced current account. Gerald Corrigan, President of the Federal Reserve Bank of New York, has predicted that the U.S. will be fortunate if it can keep its new foreign debt from reaching $500 billion by 1990. Others have projected net foreign debt of $1 trillion. Simply to make debt service on such amounts will significantly reduce the nation's future standard of living.

It should be noted that these data on our net asset/debt position are very rough approximations. They largely reflect book values at the time of acquisition and do not adjust for later inflation or currency changes. For example, they do not reflect the fact that the depreciation of the dollar since early 1985 has substantially raised the dollar value of U.S.-owned assets abroad. By the same token, the official measure of those assets was not reduced to reflect the prior appreciation of the dollar. With U.S.-owned assets abroad now estimated at roughly $900 billion, a 15 percent drop in the dollar has the effect of a $135 billion capital gain for the U.S.

The official data may also understate the extent of U.S. external debts. For several years, sizeable errors and omissions have been registered in the U.S. international accounts. Many have attributed these to unmeasured capital inflows.

THE NEED FOR A COHERENT EXCHANGE RATE POLICY

The initiative of the United States and the Group of Five, launched on September 22, 1985 was a most welcome if belated recognition of the severity of the exchange rate problem and the urgency of cooperative action to rectify it. The substantial correction of the exchange rate that has resulted, in addition to the market correction which had already occurred since the dollar peaked in late February 1985, is welcome and should alleviate some of the competitive pressures on U.S. industries.

But our exchange rate problems are far from resolved. In some cases, major competitors have "pegged" their currencies to the dollar, allowing these countries to maintain persistently large bilateral surpluses with the United States.

Moreover, although the dollar has declined sharply in the past two years, it would still have to decline signficantly in order to bring U.S. imports and exports back into balance and to reduce our dependence on the inflow of foreign capital. Experts estimate that if the dollar stayed at its current level, the U.S. merchandise trade deficit would eventually shrink from its current rate of $170 billion a year to about $90 billion by 1989 but would then stop declining.

But it is important that any necessary correction be achieved in a way which minimizes the risk of a "hard landing," with sharp increases in U.S. inflation and interest rates, or overshooting in the downward direction. In January of this year, the dollar began to fall rapidly, triggering concern about currency market instabilities and precipitating another meeting of the G–5 countries to attempt to stabilize the dollar at current levels. Paul Volcker, Chairman of the Board of Governors of the Federal Reserve, has emphasized that

> The possibility at some point that sentiment toward the dollar could change adversely, with sharp repercussions in the exchange rate in a downward direction, poses the greatest potential threat to the progress we have made against inflation.

The continuing rapid shifts in the exchange rate situation underscore the need for an on-going mechanism through which a coherent exchange rate policy can be developed and sustained. In order to deal responsibly with our competitive problems, we must avoid the egregiously misaligned currency values of the past few years, with their enormous economic distortions, destabilizing influences and impetus to protectionism.

The present misalignment is only the most recent and dramatic of a seemingly endemic series of misalignments which has occurred since most major currencies were floated in early 1973. It is becoming more and more difficult to argue that the present international exchange rate system is providing the most stable framework attainable for world trade and investment. In the last twelve years, key currencies like the dollar, pound, and yen have gone up or down by 30 to 50 percent within a couple of years. Such wide fluctuations play havoc with all traded goods industries.

Nor is our recent experience the first time currency values have impacted adversely on other economic policy goals. The dollar became overpriced by about 20 percent in the late 1960s and early 1970s, producing the prolonged international monetary crisis of 1971–73 which required two devaluations to resolve. It became overvalued again in 1976–77, leading to the "dollar crisis" of 1978 and a renewed bout of inflationary pressures. In late 1978 a major rescue program was required and the Administration endorsed the Federal Reserve's sharp tightening of monetary policy in late 1979 to halt an excessive dollar decline, which had an important impact on inflation and on global confidence in American economic policy.

The pattern of exchange rate activity over the past twenty years strongly suggests that the international monetary system has been ineffective in achieving a stable financial base for the world economy. It further suggests that the United States has been erratic and ineffectual in maintaining an exchange rate for the dollar that could protect both our international competitiveness and internal price stability.

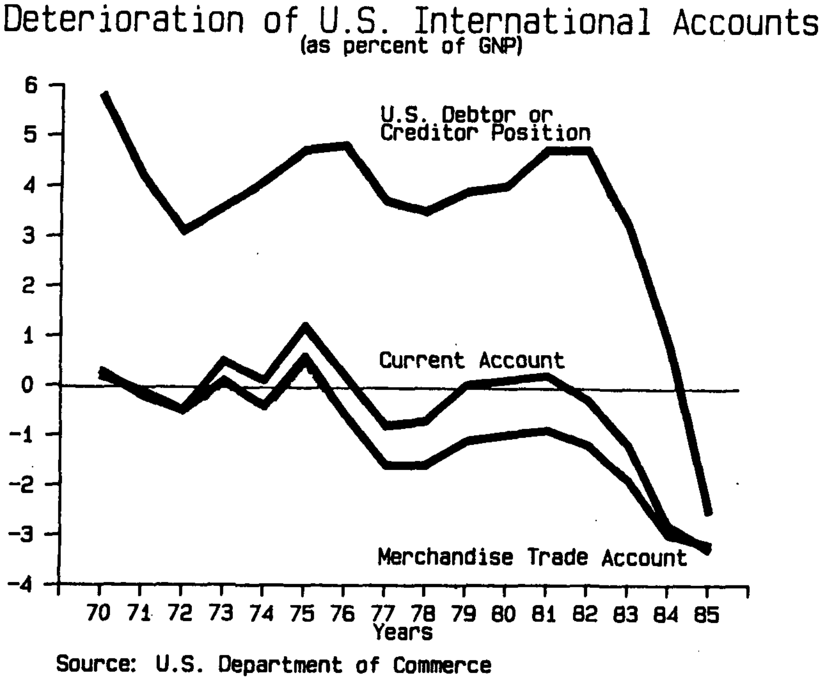
The Committee therefore believes that the United States must develop mechanisms through which a coherent exchange rate policy can be formulated and sustained. Thus, in addition to correcting the present misalignment, the Committee believes there is a need to improve the functioning of the international exchange rate system and to create stronger linkages between domestic economic policy choices and exchange rate policy goals.

To attain a competitive and stable exchange rate will require active Administration attention on three fronts: (1) strategic intervention in currency markets under appropriate circumstances; (2) coordination of economic policies with other major nations; and, perhaps most importantly, (3) adjustment of domestic economic policy to obtain long-term balance in our savings and investment.

THE ECONOMIC PROBLEM

The nation's trade balance, current account balance, and net debtor/creditor position are closely linked. Chart 3 shows the relationship of these three measures for recent years. The current account encompasses the trade account plus other current payments such as profits, interest, services, fees and royalties. For many years, the Untied States ran a current account surplus even as it ran a trade deficit. In those years, the trade deficit was simply smaller than the total surpluses in other current payments. The largest surpluses came from profits and interest on U.S.-owned assets abroad in excess of comparable payments on foreign-owned assets here. As an offset to regular surpluses in the current account, the United States had capital exports. We gradually built on our position as a net creditor nation and expanded our surpluses in the current account exclusive of trade.

CHART 3



Economic analysis of the dollar's rise

Alfred Reifman, Senior Specialist in International Economics, Congressional Research Service, has reviewed conventional economic thinking on the rise of the dollar:

> . . . mainstream economic thought agrees that one of the primary causes for the strong dollar is the huge increase in the U.S. budget deficit since 1982 at the time that monetary policy was relatively tight.
>
> The impact of the budget deficit on the exchange rate is fairly direct. When the government spends more than it receives in taxes, it does so by borrowing savings of the private sector. Without a matching increase in private savings . . . the government deficit must be financed by foreign savings. If this inflow of foreign savings had not materialized, the government's deficit would have had to be financed by a reduction in funds going to private investment, housing or personal consumption . . .
>
> . . . the increase in the budget deficit, from 2 percent of GNP in the 1970s to 5 percent in the 1980s, stimulated the U.S. economy, raising profits and interest rates, attracting funds from abroad. The increased demand for dollars raised the dollar exchange rate. This is one of the princi-

pal explanations for the appreciation of the dollar in the 1980s. The net inflow of financial capital is matched by a net inflow of real goods and services, the trade deficit. The higher exchange rate for the dollar inhibits exports and stimulates imports. The resultant increase in real goods and services thereby made available in the United States supplements our own production and allows domestic consumption and investment to exceed the country's output.

As a matter of definition in the national income accounts, the nation's investment equals domestic saving plus foreign borrowing. As the nation's saving—including government dissaving—has declined, investment has been maintained only by greater foreign borrowing.

Economists analyzing the exchange rate generally fall into either the "half full" school or the "half empty" school, differing more in terms of political judgments than economic judgments. The "half full" exchange rate school takes the rise in the structural deficit as a given, as an "economic fundamental." It welcomes the rise in the dollar as the necessary companion of greater foreign borrowing needed to maintain investment in the overall economy. According to this school, a vibrant domestic economy is the driving force; foreign lenders/investors are confident in the growing strength of the U.S. economy; and traded goods industries generally have benefitted more from domestic economic strength than they have lost in foreign competition.

The "half empty" exchange rate school focuses on the effects on traded goods industries. According to this school, economic growth has been driven by the budget deficit; foreign lenders/investors have been attracted far more by high interest rates than prospects for profitability in long term real investments; fundamental, long-term costs have been incurred because traded goods industries have experienced a sharp decline in their shares of U.S. and foreign markets that will be difficult to regain; and mounting trade problems pose a growing threat to the openness of U.S. trade policy.

Explanations for the inflow of foreign funds put the political differences between the two schools into sharpest relief. The "half full" school describes foreign investors as having become "bullish on America" as a result of the 1981 Reagan economic program. The "half empty" school contends that the inflow has been stimulated by high real interest rates induced by high government deficits restrained by monetary policy. In its support, it points to the data on capital inflows which shows most new investment to be interest-bearing assets while direct foreign investment has fallen in real terms in comparison to the late Carter years and foreigners have actually reduced their holdings of corporate stocks in 1984 and early 1985.

The two schools differ somewhat about the extent to which the rise in the dollar may have widened the gap between savings and investment. Some in the "half empty" school have suggested that the rise in the dollar has widened the gap between savings and investment by cutting profits, spurring consumption and investment of cheaper imports, and raising the government's budget deficit.

The "half full" school insists that the rise in the dollar has had virtually no feedback effect on domestic savings and investment.

While differing on the proximate causes, costs, and benefits of the rise in the dollar, members of both schools agree that the United States must ultimately achieve a better balance between internally generated savings and investment. In other words, the current account deficit (which reflects the inflow of foreign savings) cannot be sustained. They agree further that, to prevent a reduction of investment as the current account returns toward balance, the United States must raise its available savings by reducing budget deficits and improving incentives to save.

A THREE-PRONGED APPROACH

The Committee recognizes that the official view of the exchange rate held by the Department of the Treasury has markedly improved since 1985. For several years, the Department rejected intervention in the exchange markets and greater macroeconomic policy coordination to achieve realistic and sustainable exchange rate levels. The recent G–5 initiatives suggest an Administration willingness to use these tools to keep the dollar within a competitive range. Similarly, in earlier years the Department was cool, if not hostile, toward proposals to confer and negotiate on reforms of the international exchange rate system. However, the Administration has not evidenced a greater willingness to seek modifications in the existing exchange rate system that would provide for greater stability.

This Committee recognizes and welcomes these changes in policy. By this legislation, it seeks to consolidate those changes and forge ahead. In consultations with the Secretary, the Committee intends to press not only for appropriate intervention and negotiation but for additional activities. First and foremost, the Committee expects greater attention to the domestic economic policies that affect the exchange rate. Rather than take the current budget deficit, other macroeconomic policies, and savings/investment incentives as immutable "economic fundamentals," the Treasury should have to present alternative domestic policies that could make the dollar more competitive. John Williamson of the Institute of International Economics has emphasized the importance of such a process:

> One has to conclude that it would be quite wrong to accept macroeconomic follies like the U.S. budget deficit as exogenous, and accommodate them without further question. . . . On the contrary, a principal purpose of seeking a more structured exchange rate system is precisely to expose such examples of myopic and internationally inconsistent national decision making. If the administration had to explain that its budgetary policy required approval of an appreciation of the dollar's [exchange rate], which Congress could recognize would threaten a large number of tradeable goods industries, it is surely likely that political forces to restore fiscal discipline would be strengthened.

Second, the Committee intends to bring the recommendations of the IMF into public debate on domestic economic policy. The Treasury would waive its right to confidentiality, make public the official communications exchanged with the IMF for Article IV consultations, and defend any departures from the recommendations of the IMF staff. Currently, the IMF represents the best available institution for harmonizing economic policies among nations. Making its commentary a regular part of public debate on domestic economic policy should contribute to harmonizing U.S. policies with those of other countries. The Committee rejects the argument that publicizing the IMF reports will make them less critical. On the contrary, if the IMF finds that its recommendations are carrying some weight in this country, it should be emboldened to strengthen its reports.

The term "international exchange rate system" connotes more than simply international financial markets plus national monetary policies. It also includes the IMF surveillance mechanism, the harmonization efforts of the OECD, and domestic political institutions for self-correction of exchange rates and internal balance of savings and investment. The Committee regards it as highly desirable for the United States to attempt to adapt its macroeconomic and other savings/investment policies in coordination with the economic trends and policies of other countries. Better harmonization of policies should improve the prospects for economic growth here and abroad.

The Committee has devised a structure for reporting that it believes will contribute to a more stable and competitive exchange rate. It requires the Secretary of the Treasury, the chief economic spokesperson in most Administrations, to make regular public commitments regarding exchange rate policy. It is crucial that commitments are made to conform domestic economic policy efforts to the achievement of general exchange rate goals. If the Treasury follows through on those commitments, it should assist the proper movement of the exchange rate.

The bill thus requires the Secretary of the Treasury to give his active attention to three areas: domestic economic policy, international negotiation and coordination, and exchange market intervention, but does not prejudice the outcome in those areas.

PROVISIONS OF THE BILL

The competitive exchange rate

The Committee intends for the exchange rate to become a matter of conscious policy rather than an inadvertent side-effect of other policies. The bill takes an important step in this direction by establishing achievement of a "competitive exchange rate" for the dollar as important and explicit economic policy goal. The intent of this provision is to develop a central numerical concept that has some intuitive meaning, can guide policy, and measures progress (or lack thereof) in achieving an exchange rate value of the dollar that will not adversely affect the trade competitiveness of U.S. industries in world markets.

The "competitive exchange rate" is defined as "the set of exchange rates that would be consistent with an appropriate and sustainable balance in the current account, as determined by the Secretary based on an appropriate methodology that takes into account the appropriate factors which provide the most opportune prospects for economic growth." The current account reflects the rate at which the nation is lending or borrowing on net from the rest of the world. The 1986 current account of minus $141 billion, for example, indicates that the nation borrowed (over and above its lending) by $141 billion.

While some witnesses before Banking subcommittees defended the U.S. current account deficit for 1985 as appropriate, none contended that it is also sustainable. Some believe that the United States, as one of the most capital rich nations, should be a net lender. Others believe that the United States has relatively promising growth prospects relative to its low savings and should be a net borrower. Whether they recommended a positive or negative current account long term, all agreed that it must return much closer to balance. The importance of achieving such a balance has been underscored by Chairman Volcker who has noted that the monetary policy of recent years has been "influenced to some extent by a desire to curb excessive and ultimately unsustainable strength in the foreign value of the dollar."

While the bill establishes a "competitive exchange rate" as a goal, it does not mandate its immediate or permanent achievement. The intent is to establish an explicit policy goal against which economic policy decisions affecting the exchange rate can be measured. The exchange rate index to be devised by the Treasury would thus serve much the same purpose as the familiar price indices. Congress does not mandate the Federal Reserve to achieve zero inflation (i.e., a constant price index), but to defend other policy determinations in light of a policy goal of attaining an inflation rate closer to zero. In the context of this bill, the purpose is to make the Treasury accountable for economic policies that affect the competitiveness of U.S. industries. As Assistant Secretary Mulford has argued:

> The strong dollar can only be dealt with effectively by influencing or changing the economic fundamentals which underlie its strength. This means we must concentrate our efforts on economic policies and performance if we are to alter in a fundamental sense exchange rate relationships in the world economy. In concrete terms, this means . . . making the policy changes necessary to support this objective. In the U.S. case, this will require reducing the budget deficit, and creating an environment for the further lowering of interest rates.

The approach taken in the bill represents a substantial change in the nature of economic policy objectives. Under current policy, the exchange value of the dollar is simply viewed as a reflection of fundamental economic conditions, not a policy goal in its own right. The interaction between a particular exchange rate value and other economic policies is thus effectively eliminated as an issue in economic decision-making, and exchange rate goals are not significant factors in establishing policy priorities. The Committee believes that this perspective inappropriately divorces exchange rate policy from other economic policies with which it clearly interacts. Exchange rates do not rise and fall in a vacuum. A rate which is driven to extreme levels to reflect domestic imbalances will driven to extreme levels to reflect domestic imbalances will quickly begin to affect the rest of the economy.

The Committee believes that the interrelationship between other economic policies and the exchange rate of the dollar must be considered and policy priorities continually reassessed. For be considered and policy priorities continually reassessed. For example, the current budget and existing savings/investment incentives are policy choices that have a clear impact on exchange rate alignments. The bill establishes achievement of a competitive exchange rate as a separate policy goal and requires that the trade-off between that and other policy choices should be made explicit. Such accountability is critical, since, as John Williamson has noted:

> The optimum policy . . . involves taking account of where the exchange rate should be in order to generate an appropriate long-term level of competitiveness. The key point is that the authorities, unlike the private market, have macroeconomic objectives, and of the policies they adopt. The exchange rate is too important to be treated as the residual.

The Federal Reserve, the International Monetary Fund, Morgan Guaranty, and a number of scholars have already devised indices for the dollar which the Committee believes should prove useful as a starting point in Treasury efforts to estimate a "competitive exchange rate." With a carefully devised exchange rate index to track movements of the dollar in the context of the semi-annual Treasury analysis required under the bill, the Committee believes the Executive Branch and the Congress will be able to better understand and debate the relationships between the exchange rate, trends in trade and other areas of Treasury policy responsibility.

Under this legislation, the Treasury must determine how much the United States should borrow or lend annually from the rest of the world on a long-term basis. That would require an assessment of how much borrowing/lending was both "appropriate" for purposes of the "growth" of the U.S. economy and "sustainable" for the foreseeable future. The Treasury may, for example, determine that the United States should be a net borrower of $10 billion annually from the rest of the world. If so, it would be expected to estimate a competitive exchange rate that would be consistent with a $10 billion current account deficit.

Movement toward a competitive exchange rate would help make the nation competitive vis-vis the rest of the world. It does not guarantee that every industry will become competitive nor that the exchange rate with every foreign country is ideal. There will always be industries winning more sales against foreign competition and industries losing out. With a competitive exchange rate, however, the winners would offset the losers in international competition.

The Committee intentionally calls for a competitive exchange rate in terms of an index of all appropriate foreign currencies. It would not, for example, want to see a quick fix in the yen-dollar exchange rate while all other exchange rates stay out of line and our total trade and current account balances stay misaligned.

The Committee nonetheless is concerned with the exchange rates of other countries with important trade or capital ties to the United States. Rather than focus on exchange rates between the dollar and specific other currencies, the Committee directs the Treasury to estimate how much the actual exchange rate of other major countries differs from their respective competitive exchange rate indices.

Achieving a stable and realistic exchange rate for the dollar would serve the interests of the U.S. and the rest of the world. Periods of sustained misalignment have distorted U.S. investment and employment patterns. While the dollar has lost some of the importance it once had, it remains the primary currency for both international transactions and reserves. By reducing uncertainty for traders and investors here and abroad, a more stable dollar would have a positive impact on the international economy.

The other provisions of the bill, which call for international negotiations on exchange rate reform, encourage appropriate strategic intervention in international currency markets, and require thorough reports by the Treasury on policies affecting the exchange rate, are intended to provide procedures and policy guidance that will re-orient economic policy so as to make the achievement of a competitive exchange rate an important and explicit policy goal.

International negotiations on exchange rate reform

This bill mandates that the achievement of a competitive exchange rate for the dollar become a priority in international economic negotiations and directs the President to pursue international negotiations to achieve modifications in the existing exchange rate system. The Committee notes that serious currency misalignments have arisen under the existing exchange rate system and believes that the United States cannot hope to resolve resulting problems unilaterally.

It is the Committee's belief that greater coordination and harmonization of economic policies among the United States, the Europeans, Japan, Canada and other major industrialized countries are the only practical ways of restoring the dollar to a more competitive exchange rate and preserving exchange rate stability. Such coordination will prove impossible without serious international negotiations on this issue. We are pleased that the G–7 nations (the United States, Japan, Canada, Germany, the United Kingdom, France and Italy) have begun to consult more actively on this problem, but are disappointed with the extent to which they have changed course.

This provision, therefore, requires that the President shall seek to confer and negotiate with other countries to achieve modifications in the existing exchange rate system, proceeding either through existing or newly-established mechanisms. It is the Committee's intention to facilitate and encourage current efforts in this direction, and to ensure that they become part of a broader effort to negotiate necessary changes in exchange rate policy at the international level. Rather than mandate any formal conference on exchange rate reform, however, the Committee believed it was essential for Congress to give discretion to the Secretary regarding how best to proceed.

It is the Committee's expectation that the Secretary will work constructively through the negotiating process to achieve modifications in the exchange rate system that will help provide for greater long-term exchange rate stability. The Committee also anticipates that the Secretary will recommend proposals to achieve better coordination of macroeconomic policies among the major industrialized nations and greater stability in trade and current account balances and in the exchange rates of the dollar and other currencies. The Committee will monitor the Secretary's progress in these negotiations through the semi-annual reports required under section 403 of the bill.

In the past, negotiations regarding exchange rate reform might typically have proceeded under the auspices of the International Monetary Fund. The Committee believes, however, that the Treasury may find it necessary to proceed through other mechanisms if exchange rate problems are to be given the prominence they deserve and be resolved as quickly as possible. The possibility that the United States may proceed with exchange rate negotiations outside the IMF might well spur the IMF itself to more timely and effective action on this issue.

The pegged currency issue

More than half of all U.S. trade is with countries whose currencies have not substantially appreciated against the dollar since January 1985. In particular, the currencies of the East Asian Newly Industrializing Countries (NICs), notably Taiwan and Korea, have not reflected their major trade surpluses with the United States and have actually fallen against other major currencies, placing tremendous competitive pressure on all other manufactured goods producers.

To a large degree, continued low exchange rates have meant a competitive advantage for these countries in the U.S. market. In the case of Far East manufacturers especially, actual depreciation of their currencies against third country currencies has caused increasingly defensive policies in those markets and encouraged more intensive export efforts aimed at the United States. The sharp depreciation of East Asian NIC currencies against non-dollar major currencies has translated into rapid export growth and a strong surplus movement in current account balances: Taiwan, with a population of only 15 million, now has an overall current account surplus of $20 billion, owing mostly, but not solely, to its large bilateral surplus with the United States.

Some way must be found to link these currencies systematically to the international monetary system, their exchange rates more closely reflect sustainable current account performance. In the interim, increased U.S. bilateral pressure appears to be the only tool available. The bill, therefore, requires the President to initiate bilateral negotiations on an expedited basis for the purpose of ensuring that major competitors which tie their currencies to the dollar regularly and promptly adjust the rate of exchange between their currency and the United States dollar to accurately reflect an appropriate and sustainable balance in their current account.

Currency intervention

The bill encourages the Treasury, in consultation with the Federal Reserve, to intervene in currency markets at such times as would be most effective to offset speculative movements of the dollar away from its competitive exchange rate or to assist the gradual movement of the dollar toward a competitive exchange rate. The bill also requires that these actions be coordinated with other countries to the extent possible.

The Committee does not intend to suggest that currency intervention is the only, or the most effective, tool to use in any effort to achieve a more stable and realistic level for the dollar. Under certain circumstances, however, such intervention may be appropriate and necessary. The Committee would expect the Treasury to utilize existing authority under those circumstances or defend its reasons for not doing so.

The purpose of this provision is to create an explicit policy directive that the Exchange Stabilization Fund is to be used, where appropriate, for intervention to move the dollar to a "competitive exchange rate." Current law technically would authorize the Exchange Stabilization Fund to be used for this purpose. The Secretary did, in fact, intervene under existing Exchange Stabilization Fund authority and guidelines as part of the Group of Five agreement reached on September 22, 1985.

However, we must distinguish between authorization and direction in current law. While current law would permit the type of intervention undertaken since September 22, it does not explicitly direct such intervention when appropriate. A reversion to a totally non-interventionist policy under all circumstances could thus be considered consistent with guidelines under current law.

Amendments made to legislation governing the Exchange Stabilization Fund in 1976, in fact, removed the mandate that the Fund be used to stabilize the exchange value of the dollar. One of the original purposes for which the Fund was established was to enable the Secretary to intervene in exchange markets to stabilize the dollar. Subsequent amendments shifted the focus of the provision. Subsection (b) of the authorizing legislation delineates the current goals of the Fund as follows: "Consistent with obligations of the Government in the International Monetary Fund on orderly exchange arrangements, and a stable system for exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary."

As originally enacted, the Exchange Stabilization Fund Act expressly stated that its purpose was to stabilize the exchange value of the dollar. That language was removed in 1976 when the purposes of the section were changed to be concerned only with stability of the system itself rather than the exchange rate. The reason for the removal of the phrase was that under the amended IMF Articles of Agreement there was no longer an obligation to stabilize the dollar at par value under a system of fixed exchange rates. The House report stated that "under the amended Articles, the United States has no obligation to stabilize the exchange value of the dollar at any par value, or fixed rate. The current policy of the United States, of which this Committee approves, is to permit a wide degree of fluctuation for the exchange value of the dollar, and to conduct exchange rate policy subject only to the obligations of the amended Articles." Focus shifted to use of the Fund as a potential vehicle for bilateral assistance to other nations for foreign exchange purposes outside the IMF.

This Committee now believes that misalignment in the exchange value of the dollar should be restored as an explicit policy concern. The Committee notes, however, that the provisions of this section are not intended to conflict in any way with the present obligations of the Treasury Secretary to use the Exchange Stabilization Fund to make bridge financing to other developing countries and to meet U.S. obligations to the IMF under the Bretton Woods Agreement Act.

The bill is not intended to change existing relationships between the Treasury and the Federal Reserve in regard to currency intervention. It makes clear that the Federal Reserve retains control of monetary policy, independent of any foreign exchange intervention decisions of the Treasury.

The bill is, however, intended to encourage the Treasury and the Federal Reserve to intervene when appropriate to move the dollar toward a competitive exchange rate. The United States has additional resources available for intervention beyond the Exchange Stabilization Fund through the Federal Reserve and swap arrangements with foreign countries. In the past, the Treasury and the Federal Reserve have worked in consultation to apply those resources, where appropriate, to implement an effective intervention policy. The Committee would expect such cooperative efforts to continue.

Reporting requirement

This section of the bill requires the Secretary of the Treasury, after consultation with the Chairman of the Federal Reserve, to submit semi-annual reports to the Congress on progress in achieving exchange rate reform through changes in domestic and international economic policy.

In discussions with the Committee, the Federal Reserve has indicated a willingness to address the same issues. While the legislation does not require that the Federal Reserve undertake such additional reporting, it does encourage it to do so.

The Committee considered and rejected incorporating reporting on these issues into the Annual Report of the National Advisory Council on International Monetary and Financial Policies or another existing report. The Committee concluded that such incorporation would preclude adequate attention being given to the exchange rate issue on a timely basis and inappropriately limit the nature and extent of needed analysis. Accordingly, a separate report is required of the Treasury.

The bill requires that the semi-annual report set forth: an assessment of exchange rate market developments and the relationship between the United States dollar and the currencies of our major trade competitors; an evaluation of the conditions responsible for the existing situation in the exchange rate market; an assessment of the impact of the exchange rate of the United States dollar on the ability of the United States to maintain a sustainable balance in its current and merchandise trade accounts, the international competitive performance of U.S. industries, and potential increases in inflation and interest rates; recommendations for changing U.S. economic policy in order to attain an appropriate and sustainable balance in the current account, together with an assessment of the costs and benefits of any such changes; recommendations for changing U.S. economic policies made by the International Monetary Fund through consultation requested by the Fund under Article IV of the Fund's Articles of Agreement and an explanation of how the Secretary has implemented or plans to implement any such recommendations, or why it is not appropriate to do so; progress made by the Secretary in adjusting the value of the dollar toward a level consistent with current account balance, achieving long-term reform of the international exchange rate system, and negotiating with countries which tie their currencies to the dollar; the objectives and plans of the Secretary with respect to the pursuit of domestic policies consistent with the achievement of current account balance, the policy on intervention in exchange markets, negotiations with other countries on reform of the international exchange rate system, and negotiations with countries which tie their currencies to the dollar; an assessment of the overall effectiveness of currency intervention undertaken to adjust the value of the dollar; and, the reasons for any lack of progress regarding international negotiations on modification of the exchange rate system.

The intent of this reporting requirement is to increase the accountability of the Administation for competitive problems related to the exchange rate. The bill requires a quantitative assessment of the exchange rate and its effects on U.S. industry and an elaboration of the choices made in regard to domestic policies that have clear efforts on the exchange rate. Under the provisions of the reporting requirement, the Secretary of the Treasury must periodically delineate of the Congress those changes in exchange rate or macroeconomic policy necessary to move the dollar to a competitive exchange rate and justify decisions made to implement or not implement such changes. The bill also requires that the Secretary justify his policies in relation to the recommendations, if any, made by the International Monetary Fund in the course of Article IV consultations.

The semi-annual report on exchange rate policy is analogous to that on monetary policy of the Chairman of the Federal Reserve Board under the Full Employment and Balanced Growth Act. That detailed and frank discussion of policy on a regular and prompt basis has elevated the policitcal debate surrounding monetary policy.

When the Federal Reserve began its regular reporting, such issues as the potential effects of monetary policy and the degree of control attainable by the authorities remained subjects of great controversy. In part due to the promptness, thoroughness and openness of current reporting, those mechanical issues have become far less controversial. Attention has shifted toward the important political issues: the trade-offs involved in alternative policies.

Today's debates over the exchange rate closely resemble those earlier debates on monetary policy. Some consider the exchange rate extremely important to the national economy, others find it almost irrelevant. Some believe that the exchange rate can be readily manipulated by competent authorities, others seem to find it beyond the power of government to change.

This provision of the bill thus requires the Treasury—and encourages the Federal Reserve—to make a regular, public report as to its efforts to affect the exchange rate, its analysis of the effects of its efforts and developments beyond its control, and its projection of policy and external developments, comparable to Federal Reserve reporting on monetary policy, inflation, and growth. The Federal Reserve now must analyze the trade-offs between the goals of zero inflation, full employment, and rapid growth. The Treasury reports required under this legislation would examine trade-offs between a competitive exchange rate, inflation, capital inflows, interest rates, inflation, and the strength of traded-goods industries. As a result of these reports, we should develop over time a far better understanding of mechanical issues such as how much control the government can exercise over the exchange rate and with what effects.

The Congress must make many decisions (e.g., on the budget) that affect exchange rate policy. With a better understanding of the trade-offs involved and an explicit statement from the Administration of its recommendations for resolving those tradeoffs, Congress and the public could more effectively debate alternatives.

The success of this legislation hinges on the process of reporting and consultation by the Secretary of the Treasury with Congress. The Committee recognizes that this process will be modified with experience. However, certain key elements appear to be necessary for a meaningful debate on exchange rate policy.

First, the Secretary must provide rough estimates of the extent to which the current exchange rate differs from a rate that would be more consistent with appropriate and sustainable balances in the U.S. current account and the merchandise trade account. The Committee appreciates the necessity for many economic assumptions in assessing and forecasting the exchange rate, its causes, effects and alternatives. Such assumptions are commonplace in debates on tax and spending and must be fully explained. Where several alternative sets of assumptions (e.g., on U.S. and foreign rates of growth, savings, and investment) are equally plausible, the Secretary should specify the assumptions for each scenario. For each scenario, he should make the appropriate estimate of the difference between the current exchange rate and the competitive exchange rate.

To determine the competitive exchange rate in the first instance, the Secretary must determine an appropriate and sustainable level for the current account balance. That would require assumptions based on available evidence for expected growth and investment opportunities here and abroad, elasticities of supply and demand for traded goods, expected pressures on the savings, investment, and current accounts of other key countries, and other relevant factors.

As part of that analysis, the Secretary must analyze and distinguish transitory and long-term factors. During periods in which the dollar is so high that it generates deficits in the trade or current accounts, the Secretary must estimate the costs in terms of lost output, jobs and competitive performance among U.S. goods-producing industries. When the dollar is declining, the Treasury would estimate the costs in terms of inflation, interest rates, and other relevant factors.

Second, the Secretary is expected to evaluate why the actual exchange rate differs from the competitive exchange rate. This will involve an analysis of the components of U.S. savings and investment and their trends.

Third, he must recommend changes in economic policy that would permit the United States to attain a competitive exchange rate and assess the costs and benefits of each alternative. This, perhaps the most critical of the Secretary's reporting duties, is intended to emphasize the connection between the exchange rate and trade problems on the one hand and the shared reponsibility of the Administration and Congress in regard to domestic economic policies on the other. Proper emphasis on this interrelationship will help us achieve the needed coordination and harmonization of macroeconomic policies at the international level and thereby avert current problems. As John Williamson notes

> It would surely be better if governments were forced to act by the need to prevent misalignments from emerging rather than to try to correct the damage done once a misalignment has emerged. Not only would this lead to a prompter acceptance of needed policy changes, but it should contribute to a better policy mix. The present excessive level of real interest rates could hardly have arisen had governments not been able to treat the exchange rate as a residual and thus relax their concern to maintain a proper balance between fiscal and monetary policy.

The Secretary is also expected to discuss the recommendations of the IMF under the latest Article IV consultations and, if it rejects any of them, to explain the reasons for that determination.

Without compromising necessary secrecy regarding intervention tactics, the Committee expects a general report on intervention similar to that subsequently issued by the Federal Reserve Bank of New York concerning the intervention conducted after September 22, 1985.

Similarly, without detracting from U.S. negotiating leverage, the Committee calls for a full report on the progress of negotiations to achieve modifications in the international exchange rate system, including a report on progress made in bilateral negotiations with countries that tie their currencies to the dollar. The Secretary should explain the positions put forward by the United States and by other countries and their respective responses. The Secretary must explain the reasons for lack of progress, if any, in such negotiations.

After this review of the economic conditions and intervention and negotiation activities of the previous six-month period, the Secretary is expected to state his objectives and plans for the near future in each of these three areas. The Committee will judge the commitment of the Secretary to address the exchange rate problem by the seriousness of his treatment of this issue.

The Secretary must also analyze Canada, Japan, West Germany, Italy, France, the Republic of Korea, Taiwan, Singapore, and any other country with which the United States has substantial bilateral trade competition (which would be affected by the exchange rate) or bilateral capital flows (which would affect the exchange rate). For each country, the Secretary must generally assess whether and if so, to what extent, its actual exchange rate diverges from its respective competitive exchange rate. To assist in this estimate, the Secretary may choose to draw on analyses done by the IMF. In addition, he must analyze the major economic trends or policies that affect each country's exchange rate or international capital flows.

These reports shall be provided promptly to the Banking Committees of the House and Senate on April 20 and September 20. Unless the Committee chooses otherwise, the Secretary would be expected to testify before the Committee or designated Subcommittee to explain and defend the report.

Report on capital flows

As our trade and Federal budget deficits have both grown larger, the United States has attracted increasing inflows of foreign capital which have created a growing repayment burden that is reflected in the current account. While much attention has routinely been focussed on trade flows, the Committee believes that the independent significance of capital flows and their impact have not been given sufficient attention in policy discussions. Adequate information is a necessary prerequisite to deliberations on these issues. The bill, therefore, requires the Treasury, after consultation with the Federal Reserve, to submit to the House and Senate Banking Committees annual statistical reports on international capital flows and the impact of such flows on exchange rates and trade flows.

Congressional recognition of the recommendations of the International Monetary Fund

This section of the bill requires that, upon completion of any consultation with the United States requested by the International Monetary Fund under Article IV of the Fund's Article of Agreements, the Secretary shall send to the Congress all official United States documents submitted to the Fund in the course of that consultation and all official Fund documents arising from that consultation.

The intent of this provision is to bring into the public debate the official documents exchanged between the United States and the International Monetary Fund on the appropriateness of U.S. economic policy in relation to its international obligations. The U.S. Executive Director to the IMF should make every effort to obtain IMF cooperation to implement this provision.

If international macroeconomic policy coordination is to be taken seriously, the Committee believes the recommendations of institutions at the center of that process should be taken more seriously, and should be given the attention and prominence they need to influence macroeconomic policy-making in the United States.

The IMF has the responsibility to exercise "firm surveillance" of members' exchange rate policies, and conducts consultations with them on those policies. These documents are generally kept confidential by all countries. The outcome of those consultations is currently kept confidential within the Administration. As a result, it has no impact on Congress or on public opinion. The United States may, however, if it chooses, waive its right to confidentiality of the documents it exchanges with the IMF. This section would make public the results of such consultations, every time one occurs.

In the view of the Committee, in the current world economy, the IMF represents one of the best available institutions for harmonizing economic policies among nations. As a democratic society committed to such harmonization, the United States should welcome the opportunity to make IMF commentary a part of public debate on economic policy.

Subtitle B—Third World Debt Management Act

THE THIRD WORLD DEBT CRISIS

In August 1982, Mexico announced that it was unable to repay its current debt obligation to foreign banks. That dramatic announcement effectively ended a fast-paced era of commercial bank lending to developing countries which had begun nearly a decade earlier with the rise in oil prices. From 1974 until 1982, commercial banks led by the United States institutions, lent an unprecedented amount of money to developing nations. The emergence of OPEC resulted in money being recycled to the banks, which in turn lent the money to the energy-poor developing nations, which required the funds to pay for their energy supplies.

This "recycling" resulted in a level of sovereign nation indebtedness to commercial banks which in the case of many developing nations became unsustainable in the recessionary times of the early 1980's. During that same period, many freshly independent developing nations were embarked on ambitious large-scale development projects aided by bilateral foreign assistance and multilateral development banks. Official public debt, particularly for the African nations, contributed to the total accumulation of debt.

The bubble burst with the 1982 Mexican announcement. Since that time, commercial lending to developing nations has effectively stopped. In fact, in recent years, the debt servicing obligations of the developing nations have led to a situation in which the flow of net capital has been from the developing world as a whole to the industrialized countries, most particularly the United States. In order to address their ever increasing debt burdens, many of the debtor nations have pursued IMF austerity programs reducing domestic consumption, restraining internal development and improvements in the standard of living of their people, limiting imports from other countries and promoting exports to acquire the foreign exchange needed to pay their debts.

From an economic standpoint, these measures have been somewhat successful, as witnessed by the sizable reversal in the trade statistics between Latin America and the United States. From 1981 to 1984, the United States trade balance with Latin America went from a positive $3.7 billion to a negative $18.5 billion: Latin America as a region has improved its balance of trade, primarily through policies designed to restrict imports.

Yet the very indices of success in pursuing short-term austerity spell long-term failure for both the developing nations and the United States. From the perspective of the developing nations, the reduction in imports has slowed domestic investment while drastically reducing the standard of living. From the perspective of industries in the United States, the restrictions on Latin American imports has combined with the increase of international competition to deal a double blow, which has been further exacerbated by the deflation in commodity prices. These factors have contributed strongly to the rise in protectionist sentiment in the United States. The combined result is that about one-fifth of the United States trade deficit results from our trade deficit with Latin America. Even more alarming, our trade deficit with developing countries is as large as our much more widely lamented deficit with Japan.

Those same economic facts have dictated conditions which are not tenable over the long term for these nations. The standard of living of many citizens of developing nations today is at or below what it was a decade ago, and the full impact of these policies on investment has not yet been felt. Politically, these countries are acutely aware that they cannot continue such policies indefinitely; the economic problem has now become a political problem as well. Austerity without economic growth has not led to development, defined as a decent national standard of living and material well-being, but has instead threatened the very fabric of the fragile young democracies in these developing nations.

The situation threatens the interests of the United States in at least two forms. First, the practice of austerity in the developing nations has had deleterious effects on our trade posture, resulting in a nearly $50 billion reversal in our trade balance with these countries, while leading to a loss of about a million jobs in the United States. In addition, while the exposure of the one hundred largest United States banks has declined from almost 200 percent of capital to little more than 100 percent, the levels of exposure nonetheless pose a threat to the safety and soundness of our banking system. Many of the third world debtor countries will likely face increasing difficulty in servicing their debts, thus exacerbating the banks' problems.

The fundamental premise of this legislation is that the debt crisis in the developing countries poses a threat first to United States trade and the health of its manufacturing and agricultural industries and second to the safety and soundness of the United States financial system.

The Committee maintains that the implicit support provided the Baker plan in H.R. 4800 is no longer sufficient. The Baker plan relied on the combined efforts of the international banks and the Multilateral Development Banks to provide new loans to the developing nations. Yet, the private bank portions of these funds have been provided only because of the insistent prodding and the arm twisting of the Federal Reserve System and the IMF, and even then, never in sufficient quantities. While the banks have been increasing their capital and loan loss reserves over the past several years, their reluctance to increase their loans with the third world has increased. And at the same time, the debt crisis has intensified. It is time to move in a new direction in an effort to avert major international financial crisis.

Subtitle B of title IV has three major components: First, it authorizes the Department of the Treasury to initiate negotiations with those countries it deems appropriate to establish an International Debt Management Authority. This multilateral authority could perform several functions. These include: purchasing loans from the banks at a discount; renegotiating the terms of the loans with the debtor countries; aiding the banks in the voluntary disposition of their loans; and finally, encouraging the trade surplus countries to increase their investments in the debtor nations.

Second, a series of provisions are included which are intended to improve the performance of the World Bank and to expand the resources at its disposal to aid debtor countries at a minimal cost to the United States. The Committee endorses the position that the World Bank should provide assistance to the developing world in conjunction with assistance from the other multilateral development banks.

Third, the bill includes requests for several studies from the Department of the Treasury and the Federal regulatory agencies. The Department of the Treasury is authorized to undertake a study of a one-time allocation of SDRs to the poorest debt-ridden countries, which would derive little benefit from the establishment of an International Debt Management Authority. In addition, the Federal bank regulatory agencies are authorized to undertake studies of regulatory changes both within the current environment and those needed to support the establishment of the International Debt Management Authority.

Chapter 2—International Debt Management and Economic Growth

LIMITED PURPOSE SPECIAL DRAWING RIGHTS FOR THE POOREST HEAVILY INDEBTED COUNTRIES

With respect to official debt (i.e., debt owed bi-laterally or to multilateral financial institutions), which constitutes the bulk of the debt owed by sub-Saharan Africa, the Committee recognized the growing acceptance of the fact that much of this debt is uncollectible. The countries are too poor and their earning prospects are too dim. Much of this debt is already delinquent and efforts to service it are, in some countries, inflicting serious damage on their economies as well as undercutting their ability to import US (and other) goods. The present practice of repeated reschedulings of this debt offers no real solution but in fact increases the absolute size of the debt while the endless negotiations overtaxes the limited numbers of financial technicians that their countries have.

The Special Drawing Right (SDR), an IMF created financial asset which is usable for bilateral transactions and for transactions with most of the multilateral financial institutions to which this debt is owed, may be a mechanism through which this massive official debt can be reduced for some of the most heavily debt burdened poor countries. The impetus for the initial creation of SDRs lay in the need for additional global liquidity, and the SDR is viewed by its users as principally a reserve asset. As an administratively created instrument providing access to resources, the basis for SDR allocations has always been subject to some disagreement, the economically stronger countries arguing that the basis should be related to the size of their economies and the magnitude of their trading sectors (i.e. to their IMF quotas) whereas the poor countries have argued that the seniorage arising from the creation of SDRs should be linked to development needs of countries.

In Section 421, the Committee has requested the Secretary of the Treasury to study the feasibility and desirability of a one-time issuance of SDRs for the specific purpose of extinguishing a portion of the debt owed by excessively debt-burdened poor countries. No effort was made to delineate the countries to be so assisted, with the intention that this would be determined within the IMF. There is, however, ample precedent within the IMF for the utilization of statistical criteria to determine eligibility for benefits in IMF-sponsored activities. Appropriate criteria in this instance might be IDA eligibility combined with "debt to GNP" and "debt service to export earnings" ratios of a certain level. The degree of relief which might be afforded to any country would depend both on the number of countries which met the criteria and on the total size of the SDR issuance. In a memorandum of explanation handed to the Secretary of the Treasury, a suggested issuance of 20 billion SDRs was used.

In an effort to ensure that the Treasury Department's study be as comprehensive as possible, the legislation requested that consideration be given to alternative means for achieving the objective of substantial debt relief for these target countries. The IMF staff and representative groups of the IMF membership have proposed a range of proposals for relieving Third World debt, among them an expanded structural assistance facility, an interest rate subsidy, and an issuance of regular SDRs with a give-back provision for the developed countries. Another proposal stipulates the creation of SDRs by the IMF to cover the interest expense of an SDR issuance similar to the Committee proposal. The study should indicate in detail how these various proposals compare with one another as well as with the Committee's proposal, in terms of the degree of relief offered the technical difficulties of implementation, the political factors likely to be encountered and other relevant factors.

Because the SDR normally triggers an interest expense where it is used for reducing balance of payments deficits (but not when held as a reserve asset), the Committee's proposal calls for waiver of the interest provision on the first use of the special purpose SDRs (used for debt retirement). The interest expense provisions of the Committee proposal or alternatives, plus the departure from utilizing the IMF quota as the basis for allocating SDRs, may require amending the IMF articles of agreement. The Committee language calls for an assessment of the necessary changes and the prospects for achieving such an amendment.

Provisions of the bill relating to the regulation of depository institutions

In Section 422, the Committee included language making it a sense of the Congress that regulations prescribed by Federal banking regulatory agencies should grant the widest possible latitude to those banks negotiating principal and interest reductions with respect to obligations of heavily indebted sovereign borrowers. The purpose of this section was to indicate the intent of Congress that those banks choosing to dispose of their international debt, whether through: selling it to the International Debt Management Authority (see SEC. 423); providing either interest rate or principal forgiveness; debt-equity swaps; or other means, not be penalized for these actions but instead be given as much flexibility as possible within generally accepted accounting standards.

Thus, for example, a bank choosing to sell its loan with a third world country at a discount should be allowed to write-down the value of the loan over time, instead of having to account for the total loss in the current quarter's earnings. In other words, regulatory relief should be maximized for those banks choosing to dispose of their loans. In addition to the sense of the Congress, the Committee authorizes the Comptroller of the Currency, the Federal Reserve System, and the Federal Deposit Insurance Corporation to conduct studies to determine the extent of any regulatory obstacle to negotiated reductions in the debt service obligations associated with sovereign debt.

Insofar as the Committee ascertained that such regulatory action would not in itself suffice, the Committee included language stating that banks not be allowed to endanger their capital to assets ratio and that they be required to build up their reserves for loan losses in accordance with both the credit and country risk entailed by their lending activities. In this manner, the Committee conveyed the sense of the Congress that banks choosing to take action not be penalized while nonetheless ensuring the safety and soundness of the international financial system.

Negotiations for the establishment of an international debt management authority

In Section 423, the legislation requires the Secretary of the Treasury to initiate negotiations with countries deemed appropriate to propose the establishment of a multilateral financial intermediary, which would be authorized to:

(1) purchase sovereign debt of less developed countries from private creditors at a discount:

(2) enter into negotiations with the debtor countries for the purpose of restructuring the debt in order to ease the debt service burden and provide additional opportunities for international economic growth;

(3) assist the creditor banks in the voluntary disposition of their Third World loan portfolio; and

(4) encourage Germany, Japan, and other trade surplus nations to increase their investments in the debtor countries.

HISTORY OF THE INTERNATIONAL DEBT MANAGEMENT AUTHORITY

The International Debt Management Authority (IDMA) evolved from a concept developed in spring 1983 by Professor Peter Kenen of Princeton University, who entitled it the International Debt Discount Corporation (IDDC). Under Kenen's plan, bank loans with the third world would be purchased by the facility at a ten percent discount. The facility would purchase the loans and issue bonds to the banks, carrying a rate of interest one percent above the long-term rate on U.S. Government Securities.

These discounted claims would then be stretched out into long term debt, which would include a three-year grace period. The newly rescheduled debt would bear an interest rate not more than a quarter of a percent above the rate on the bonds issued by the IDDC. Under this plan, both the safety and soundness of the international financial system and the growth of the debtor countries would be enhanced.

Since 1983 when Dr. Kenen proposed the establishment of an International Debt Discount Corporation, the relation between third world debt and the United States trade deficit has become increasingly clear. As the third world has attempted to service its debt, by and large the result has been an increase in the trade deficit of the United States. The debt has been serviced at a tremendous cost to American industry. At the present time, the United States trade deficit with the third world is approximately one-third of our total trade deficit.

PURPOSES OF THE INTERNATIONAL DEBT MANAGEMENT AUTHORITY

Given the effects of the third world debt on both international trade and the safety and soundness of the international financial system, Sec. 423 of the legislation would require the Secretary of the Treasury to establish negotiations for an international agency which would address the debt problem. In addition to purchasing the debt at a discount and passing this discount on to the debtor countries, the authority would additionally be authorized to aid banks in the disposition of their third world loans and to encourage trade surplus nations to increase their investments in the debtor countries.

The most important function of the International Debt Management Authority is clearly the discounting function of the facility. This function would provide relief to both the debtor country and to the international financial system, though a cost would be imposed for taking such action. A bank holding a loan with a third world country might voluntarily choose to sell the loan with IDMA at a discount. While such action would result in a loss to the bank, it would nonetheless be relieved of the costs and the risks of continuing to carry this loan. If, as under the current system, the bank were to unilaterally write-down the value of the loan, the third world country would not benefit from such an action.

The International Debt Management Authority by contrast would provide genuine benefit to the debtor country, to the extent that the loan will be discounted. The legislation does not mandate how the discount should be established or what it should be, leaving those decisions to the discretion of the IDMA. In providing this benefit to the debtor country, the legislation would ease the debt burdens, although it would require that specific developmental conditions be met within the debtor country prior to the renegotiation of its loans.

These conditions include an economic management plan to be submitted by the debtor country and approved by the International Debt Management Authority, which would ensure that an appropriate development strategy, including, where appropriate, the development of a minimum wage standard for the debtor country. Such a plan will be calculated to enable the debtor country to meet its restructured debt obligations, while providing economic benefits to working people within the country.

Having then purchased the loans from the banks, and having established the renegotiated value of the debt with the debtor country, the facility would be left with a series of options. First, it could sell the debt to the debtor country at its discounted price. Second, it might agree with the debtor country to swap the debt for equity assets. Third, the authority might repackage the debt instruments into marketable securities and sell these on the secondary market. And finally, the authority might decide to hold the renegotiated debt as the creditor of the borrowing country.

The fundamental intent of the legislation is to require the Secretary of the Treasury to initiate negotiations to establish a multilateral financial intermediary. Given the multilateral or international nature of such a facility, the Congress can not mandate its form; rather this must be determined through negotiations between the Secretary of the Treasury and other financial ministers or alternative country-designates. Beyond a point, the legislation adopted by any Committee simply acts to "tie the hands" of the parties entering into negotiations. The purpose, therefore, is to construct the appropriate balance providing as much detail as possible for the Treasury Secretary while yielding him as much flexibility as possible.

Provisions addressing issues related to both regulation and capitalization of the facility were carefully broached by the Committee, given its aforementioned concern with not providing the Secretary with an inflexible position. While the members of the Committee entertained and addressed numerous ideas on each of these subjects, the direction of the Committee was clearly opposed to simultaneously requiring negotiations while mandating exactly what was to be negotiated. The Committee determination that it could not legislate an international entity was the guiding factor behind this decision. Nonetheless, the Committee does feel strongly on these issues and they are discussed below.

REGULATORY QUESTION: EXAMINING THE INTERNATIONAL LENDING AND SUPERVISION ACT OF 1983

The International Lending and Supervision Act of 1983 passed the Congress following the Mexican summer of 1982, at a time of heightened concern for the safety and soundness of those financial institutions engaged in international lending. The Act, designed to provide added protection against perceived "country" risk in lending, authorized the Federal bank regulatory agencies to insure against such risk. These agencies, in turn have given the Interagency Country Exposure Review Committee (ICERC), consisting of three members from each of the bank regulatory agencies, much of the responsibility for ensuring that country risk is accounted for in bank supervision.

ICERC in turn has rated bank exposure to third world countries in one of seven categories, which are as follows:

1. "Strong"—defined as "countries experiencing no perceivable economic, social, political problems or none which are not mitigated by other factors."
2. "Moderately Strong"—defined as "countries experiencing a limited number of identifiable economic, social or political problems which are not presently of major concern."
3. "Weak"—defined as "countries experiencing a number of economic, social, and political problems, or a significant problem deemed correctable if remedial managerial actions are being taken or can be taken in the near term."
4. "Other transfer risk problems" (OTRP)—defined as "countries not complying with their external debt-service obligations, as evidenced by arrearages, forced restructurings or rollovers, but which are taking positive actions to restore debt service through economic adjustment measures, such as an IMF program; countries meeting their debt obligations but whose non-compliance appears imminent; or countries previously classified which now demonstrate the ability to resume debt service."
5. "Substandard"—defined as "countries not complying with their external debt service obligations and (a) not in the process of adopting or adequately adhering to an IMF or other economic adjustment program or (b) not negotiating a viable rescheduling of their debts or likely to do so in the future."
6. "Value impaired"—defined as "countries having prolonged debt-servicing arrearages as evidenced by more than one of the following: (a) have not fully paid their interest for six months; (b) have not complied with IMF programs and there is no immediate prospect of compliance, (c) have not met rescheduling terms for over one year, and (d) show no definite prospects for orderly restoration of debt service in the near future."
7. "Loss"—defined as "countries whose loans are considered uncollectible. An example would be a country which has repudiated its obligations to banks, the IMF, or other lenders."

The International Lending and Supervision Act of 1983 established that "special" reserves, entitled Allocated Transfer Risk Reserves (ATRRs) be established by those banks lending to countries being rated "value-impaired" or "loss." Seven countries were rated as either "value impaired" or "loss" in June 1986, and the banks lending in these countries had established special reserves well in excess of the required amounts.

However, the Act has been especially lenient to those banks lending to countries with ratings of either "Other Transfer Risk Problems (OTRP)" or "Substandard", insofar as it does not require that any reserves be established against these loans. According to a recent Report, approximately 77 percent of total loans with the

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third world were to "nations currently not complying with their debt service obligations, or to nations whose noncompliance appears imminent," that is with nations rated OTRP or worse. Yet only 2 percent, a small proportion of these loans require "special" reserves.

Committee attention turned towards increasing those categories for which the special reserves would apply to include both the "OTRP" and the "Substandard" categories. The rationale for moving in this direction is as follows. While bank loan loss reserves have increased rather substantially in recent years, they remain far from adequate. If ICERC were to increase the categories for which these special (ATRR) reserves apply, this would have two effects on the banks. First, for those banks deciding to hold on to these loans, it would provide added insurance to the safety and soundness of the international financial system. Second, those banks realizing that the added expense is simply not worth it, namely that these loans are no longer worth one hundred cents on the dollar, could choose to employ a number of options, including either selling the loans to the facility, debt-equity swaps, and/or interest/principal forgiveness. And these decisions would be voluntarily reached by each bank in accordance with its own assessments of the bottomline.

Amending ILSA would further insure that the debtor countries would benefit from the discounted value of the loans upon establishment of the facility. Thus, while the Committee stopped short of mandating regulatory language (for reasons mentioned above) it proposes that the Congress study how it might amend the International Lending and Supervision Act of 1983 with two purposes in mind. First, in the short-run to provide increased safety and soundness to the international financial system, and second, assuming establishment of IDMA, to provide increased voluntary use of the facility by the banks and enhanced benefits to the debtor countries.

Action by multilateral institutions

The issue of capitalizing the International Debt Management Authority attracted a tremendous amount of interest in the course of the development of the legislation. While Committee intent was again to leave the Secretary of the Treasury with as much flexibility as possible in negotiating how this facility would be capitalized, there were nonetheless several suggestions as to how this might be accomplished.

The initial issue concerned how much capital this facility would require to carry out its intended goal. To the degree that the IDMA would sell the renegotiated debt through the secondary market the needs for capital would be reduced. In addition, the employment by the facility of low interest long term bonds with which to pay the financial institutions would further reduce the likely needs for capital. While it is certainly intended that the capital needs of the facility would be fairly minimal, the following ideas were discussed.

First, one member proposed exploring the possibility of utilizing a small portion of the $40 billion in IMF gold as collateral for securities to be issued by the facility. Another member proposed that capitalization be derived from a type of transaction or "user fee". And a third idea would propose that the OECD countries negotiate a formula by which they would apportion among themselves the needs for capitalization for the facility.

In Section 424, the Committee required the Secretary of the Treasury to direct the Executive Directors of both the International Monetary Fund and of the World Bank to determine the amount of and the alternative methods by which, respectively, the gold stock of the IMF and the liquid assets of the World Bank could be pledged as collateral to obtain financing for the activities of the International Debt Management Authority and to report their findings within 60 days of the passage of this Act.

Given the delicate nature of the negotiations established in Section 423, the Committee took no further action beyond requiring that the Secretary authorize the Executive Directors to undertake studies of available assets. In addition, the Committee made it a sense of the Congress that the need for capitalization will be reduced given the role of the intermediary as market facilitator.

IMPROVING U.S. PROCUREMENT OPPORTUNITIES IN THE DEVELOPING WORLD

U.S. firms have access to considerable business opportunities in the developing countries because of the projects and funding made available through the multilateral development banks. In 1985, U.S. procurement related to World Bank funded projects alone in the developing countries totaled over $858 million. These procurement activities constitute exports and consequently help reduce the U.S. trade deficit.

While this is an impressive record the Committee believes that it can and should be improved upon. This is particularly true given the exchange value of the dollar which has served to make U.S. goods and services more competitively priced in many world markets. U.S. firms are losing opportunities to make sales because our foreign trading partners are often more adept at securing much of the business made available through MDB lending.

The comparatively more aggressive pursuit of export opportunities on the part of some of our trading partners is reflected in procurement shares as a percentage of contribution to the multilateral institutions. The United States subscribes to roughly 20% of the World Bank's capital stock and yet secures only 16.9% of total procurement. In contrast, the French contribute 5.5%, but receive 6.8% in total procurement, and the Japanese subscribe to 8% of the Bank's stock, but get back 17.1% of total procurement. While part of this differential is due to past colonial relationships between the Europeans, Japanese and the developing countries, it is clearly not the whole story. This is borne out by the fact that the share of U.S. procurement has declined in recent years.

Section 424 of the Subtitle mandates that the Secretary of the Treasury work with the Secretary of Commerce in appointing foreign commercial officers to serve with each U.S. executive director to the multilateral development banks. The purpose of this requirement is to assist U.S. firms in gaining full and fair access to procurement opportunities. It stems from the recognition that the U.S. directors offices have many priorities related to the examination and appraisal of MDB lending and therefore may not always possess the human resources to properly assist U.S. firms.

The purpose of this provision is not only to better communicate with the U.S. business sector about potential opportunities but also to more directly address complaints or problems which may arise with regard to a particular project in which a U.S. firm may already be involved. This is not intended to ensure preferential treatment for U.S. firms but rather fair treatment.

While the Committee directs the Secretary of the Treasury to work with the Secretary of Commerce, it is the intent of the Committee that the Treasury Department maintain primary responsibility over improving the procurement opportunities for U.S. firms with regard to multilateral bank projects.

Reducing capital flight

Included in the bill, as section 425, is a provision which states that it is the sense of the Congress that past and continuing transfers of capital from the developing countries is a major component of the ongoing debt crisis. It calls on the U.S. executive director of the World Bank to initiate discussions at the Bank to generate the development of proposals which would help deter these transfers through the enhancement of incentives to invest funds domestically rather than externally. Secondly, section 425 instructs the U.S. executive directors to the multilateral development banks to seek an increase in the amount of each bank's financial sectoral lending program.

Reducing the level of capital flight must be considered a priority in the policy advisory role undertaken by the MDBs. Capital flight has contributed significantly, in the case of some countries as much as 50%, to the external debt of the developing countries. This condition exacerbates debt servicing difficulties as well as dramatically reducing available internal investment resources.

The Committee believes that the multilateral development banks can make a significant contribution toward alleviation of the capital flight problem. The banks can accomplish this by transmitting policy advice and through direct encouragement of financial sector reforms via their sectoral lending programs. Through such means as encouraging and helping to establish internal capital markets and enhancing savings incentives in the developing countries the MDBs can help discourage capital flight from the developing countries.

Study and report on certain International Monetary Fund activities

Section 426 directs the Secretary of the Treasury to instruct the U.S. Executive Director of the International Monetary Fund to conduct a study on the impact of the Fund's economic adjustment programs on the political stability of Less Developed Country (LDC) democracies; the role the Fund intends to play in solving the LDC debt crisis; and on the implementation of section 49 of the Bretton Woods Agreement dealing with unfair trade practices.

The study is not country specific, but requires an indepth analysis of the Fund's overall policy.

For the past five years, the Fund has been increasingly criticized for the harsh results of the economic adjustment programs it requires a country to undertake in return for a loan from the Fund. Recently, Brazil refused to deal with the Fund in renegotiationg its debt, and there is some concern that other countries will follow suit.

The Committee feels that the Fund serves an important function. For this reason the Committee would like a deeper insight into the Fund's programs and activities. The study will also permit the Fund to provide an objective analysis of its policies, which in light of increasing LDC debt problems, the Committee feels will be useful in responding to some of the questions that may arise with respect to Fund's policies.

Structural adjustment lending

The World Bank has been engaged in structural adjustment lending since 1980. This type of lending is intended to serve the specific purpose of encouraging wide-ranging economic reforms in the developing countries. In return for countries undertaking such reform programs the World Bank provides foreign exchange needed to compensate for potential exchange shortfalls brought about as a result of implementation of these reform programs.

Structural adjustment lending (SAL) has emerged as a key component of the World Bank's response to the ongoing debt crisis as the focus on the importance of economic reforms in the debtor countries has increased. While the Committee is not opposed to structural lending and understands that the economic policy framework is critical to successful development, it nevertheless offers some cautionary advice.

The Committee is concerned with the often negative short-term impact policy reforms advocated through SALs can have on the most vulnerable groups in the developing countries. We would submit that the Bank must be more sensitive to these negative impacts and should whenever possible incorporate into its reform programs specific measures intended to compensate for these negative effects. Secondly, the Committee believes that it may be advisable for the Bank to exercise greater control over how the loan proceeds are expended. Methods need to be explored for ensuring that the money disbursed in connection with an SAL accomplish more than simply serving to keeping a country's interest payments current with its creditors.

Section 427 of the bill directs the Secretary of the Treasury to instruct the U.S. executive director of the World Bank to initiate discussions with the other executive directors of the Bank to ensure that the aims of structural adjustment lending can be achieved. The U.S. executive director is instructed to propose that the conditions associated with an SAL include innovative requirements designed to minimize the adverse impact the reforms inherent in the SAL can have on low income groups and to remove legal and regulatory barriers to making credit available for microenterprise borrowers.

It is further the intent of this section that the policy lending programs undertaken by the Bank be consistent or actually promote environmentally sound development practices. The legislation calls on the Secretary of the Treasury to report within a year on the efficacy of structural adjustment lending in encouraging the developing countries to undertake economic reform. This report must also include information on the impact of structural adjustment lending on the lowest income groups.

This section also requires the U.S. executive directors to the multilateral development banks to enter into negotiations to propose mechanisms for the purpose of making small-scale credit available to lower income groups in the developing countries. Such mechanisms should include the use of indigenous nongovernmental organizations and private financial institutions as intermediaries.

Many of the developing countries have undertaken painful but necessary economic policy reforms. However, because this adjustment process often impacts disproportionately on the poorest, most vulnerable groups within the developing countries, the Committee believes that the Bank and the country involved should do more to minimize these adverse effects. One innovation which the Committee believes merits exploration would involve microenterprise lending guarantee arrangements to encourage lending to small-scale entrepreneurs. Additional approaches not specified in the bill could include seeking alternative funding sources for domestic programs which benefit particularly vulnerable groups such as small-scale agricultural producers or basic health care providers.

The Committee believes that structural adjustment lending should be consistent with environmentally sound development practices including the long-term management of natural resources. Domestic policies in the developing countries as well as official development agencies which disregard or minimize the environmental impact of development can produce negative consequences for long-term growth just as can inefficient macro-economic policies. Developing countries today are experiencing resource deterioration—deforestation, desertification, soil erosion, and the like—which negatively affects their future agricultural productivity, energy supply, water quality, and other necessities of sustained development. The debt crisis places an additional premium on sound resource management. Lending for development or structural adjustment should be carefully scrutinized with this criterion clearly in mind.

Testimony received by the Subcommittee on International Development Institutions and Finance indicated that a great deal of entrepreneurial initiative exists among the lowest income groups of the developing countries but that this initiative is often stifled because these low-income groups have inadequate access to credit. Programs which have provided access to credit for relatively small borrowers have enjoyed significant success with comparatively low incidences of default. The Committee therefore believes that establishing programs within the appropriate multilateral development banks to help meet the needs of small-scale borrowers would be a necessary and worthwhile addition to their lending programs.

Equal access to Government debt instruments

Section 428, the Equal Access to Government Debt Instruments provision, is intended to provide access for American companies wishing to participate in the government securities markets in foreign countries.

Under the section, the Federal Reserve Board must determine if a foreign country provides equal access to American and domestic companies in the acquisition of government debt instruments. Equal access is defined as allowing American companies to gain access to such instruments upon their original issue and as providing that access in a manner such that the companies may act in a capacity substantially equivalent to a designation as a primary dealer by the Federal Reserve Bank of New York. A foreign country that grants access to only a predetermined portion of these instruments shall not be considered to have granted equal access.

If the Federal Reserve Board finds that a country does not provide equal access to American firms, then it must take two steps. First, it may not designate any persons of that foreign country as primary dealers. Second, it may not permit the continuation of any prior designation of any persons of that country as primary dealers.

The section defines "person" to include both foreign persons and American persons owned or controlled by foreign persons. A foreign person is an entity that is a resident of a foreign country, organized under the laws of a foreign or has its principal place of business in a foreign country.

The purpose of this bill is to open all markets presently closed to American firms. It is not intended to keep any foreign firms out of the American government securities market. As a result, the bill is not effective until six months after its enactment. This delay will allow any countries which presently do not provide equal access to American firms to change their rules to allow equal access before the effective date.

CHAPTER 3—ENSURING THE STABILITY OF THE INTERNATIONAL FINANCIAL SYSTEM

BACKGROUND

During the Subcommittee on International Finance, Trade and Monetary Policy's hearing on this section, the private sector witnesses responded favorably to inquiries regarding their reactions to a study that would explore the possibilities for permanently resolving the Less Developed Country (LDC) debt crisis and for involving the private sector in any solution.

The Committee recognizes the difficulties involved in solving the debt problem and the effects that the LDCs' difficulties in repaying their debt may cause them, as well as the impact this could have on certain sectors of the U.S. economy. For this reason, the Committee feels that any solution to the problem should include participation by private sector sources.

It is clear to the Committee that resolution of this problem is of the greatest importance. This is so, not only for the heavily indebted LDCs who will continue to need new means to finance economic growth programs, but equally so for U.S. banks that presently hold large portfolios in LDC debt. The worsening debt problem could lead to difficulties for banks in various ways. The need to place loans on a nonaccrual or cash basis can lead to loss of depositor confidence, loss of bank stock value on the market, loss of shareholder confidence, and dumping of bank stocks.

The Committee's intent is to explore all the available avenues that could lead to a reduction in banks' holdings in LDC debt, and in the LDC's debt services burden. This intent is compatible with the purpose of this subtitle: maintaining the safety and soundness of the U.S. financial system and reducing LDC debt in a manner that will provide for sustained growth in debtor countries.

EXPLANATION OF THE PROVISIONS

Private capital sources for developing nations

Section 431 requires that the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve Board, the Comptroller of the Currency in conjunction with accountants, lawyers, bankers and consultants with specialized knowledge of international finance, and representatives of the central banks and governments of Japan, West Germany, France, the United Kingdom, Italy, Canada and Switzerland conduct a study to explore the changes necessary in U.S. capital markets and the regulation of private financial institutions that would be consistent with increased growth in debtor nations and the stability of the U.S. financial system.

The purpose of the study is to examine the various alternatives that may be available in approaching Third World debt. The primary purpose of including consultation with outside experts is to broaden the scope of the report in order to provide a complete picture of the debt problem.

The section specifies 10 areas of investigation that must be addressed in the study. The first is changes in statutes or regulations which may encourage the growth of a secondary market in Third World debt. The intent here is for the report to explore all aspects of a possible secondary market, including debt-debt and debt-equity swaps. Another method to be explored is the repayment of debt in local currencies. The third area of study is one that the Committee feels is particularly important; it is the analysis of the effect that debt relief would have on the market value of commercial banks' stock. This should be an important consideration for any program of debt management. Other areas included in the study are changes in the tax code that might prove effective in encouraging debt writedowns; the feasibility of establishing a national debt discount facility and sources of finance for such facility; evaluation of the potential role of the Bank for International Settlements in assisting to manage the debt problem; and the encouragement of a seondary market to help reduce commercial bank holdings in LDC debt.

The Committee recognizes the difficulties inherent in any solution to the LDC debt problem. LDC debt continues to grow, and the difficulties faced by the debtor countries in meeting their debt service payments will cause a profound effect in many sectors of the U.S. market. The Committee feels that this study is a necessary step in devising alternatives to the debt problem.

Mobilization of private capital

Section 432 of the bill calls upon the Secretary of the Treasury to instruct the U.S. executive directors of the multilateral development banks to initiate discussions with their counterparts in the Basnks to propose greater use of cofinancing as a means of leveraging where appropriate enhanced commercial bank lending to the developing countries. The section also calls for U.S. leadership in the World Bank and the International Monetary Fund in increasing the role of the Bank and Fund as originators in generating new capital and capital instruments to benefit the developing countries.

More flexible procedures for rescheduling of debt service payments for less developed countries

Section 433 requires that the Federal Reserve and the Department of the Treasury offer banks with exposure to LDC debt options that will allow them to provide debt relief.

This process will be set in motion once a bank and the indebted country begin renegotiating or restructuring that country's debt service payments. During the negotiating process a numerical target for debt relief will be established in dollar amounts. The target will continue to be determined through negotiations with the debtor country and the multilateral agencies. The bank would provide a prorated share of debt relief based on the size of its outstanding loans to the debtor country.

There are five specific options outlined in the section that are among those that the banks will be able to choose from. These include lending new money, thereby preseving the status quo and giving the indebted country a new infusion of capital with which to stimulate new growth and allow them to continue serving their debt. The second option would primarily appeal to those banks with smaller LDC debt portfolios. It would allow them to write off and forgive a portion of the principle. Option three allows the banks to forego or reduce interest payments to a designated level. Option four requires reliance on the market to establish the face value of the loan, which the bank can then sell to investors interested in redeeming the loan in local currency for purposes of investment in the debtor country. This is known as a debt-equity swap. Option five simply states that the banks may combine any one or all of the options in order to allow them flexibility in designing a debt relief plan with the lowest possible cost to the bank while still meeting the designated target figure.

This plan is intended as a short term course of action. The primary purpose of the plan is to make the banks aware of the range of debt relief options available to them. Many of the banks with smaller LDC debt portfolios have either been unaware of or unable to take advantage of the different possibilities for managing or reducing their exposure to LDC debt. This plan would not mandate that a bank use any or all of the options listed; it merely requires that banks be notified of the availability of these options.

More flexibility is required in dealing with LDC debt problem. This plan provides that flexibility and an ease of implementation. It also can become immediately effective because no long term negotiations are necessary.

This provision also includes a sense of the Congress that the Federal agencies that oversee and regulate the operations of depository institutions should seek to assure that those in institutions with substantial LDC loan portfolios establish adequate reserves against loans to heavily indebted LDCs. This would insure the continued safety and soundness of U.S. financial institutions.

Chapter 4—Multilateral Investment Guarantee Agency

At the request of the Administration the Committee included authorizing language for U.S. participation in the Multilateral Investment Guarantee Agency (MIGA). This provision was retained in the Committee reported legislation but with a significant alteration included. Congressman Bereuter, during Subcommittee markup, offered an amendment to include funding for MIGA at the Administration requested level. The Subcommittee adopted the amendment which would formally enable the U.S. to join MIGA.

The Substitute Amendment adopted and reported during full committee markup included one change to the authorizing language inserted by the Bereuter amendment. Of a total U.S. subscription of $222 million (callable and paid-in capital) the Substitute incorporated a cap on FY 88 budget authority for MIGA such that no more than $22 million in paid-in capital could be appropriated for FY 88. While this would not have any impact on callable capital subscriptions obligated by the United States, the cap does have the effect of limiting outlays for MIGA during FY 88 to no more than $22 million. This limitation reflects budgetary pressures which have restricted spending in the multilateral bank accounts.

The MIGA is an international institution affiliated with the World Bank and designed to encourage the flow of direct investment to the developing countries. It will issue guarantees against non-commercial risks, carry out a wide range of activities to promote direct investments, and encourage sound investment policies in member countries. The Committee believes that it will help strengthen the private sector in the LDCs and will help to ultimately alleviate some of the pressure being experienced by the developing countries to take on more debt by replacing debt with equity investment.

It will provide political risk insurance against loss in the event of expropriation, war and civil disturbance and certain breaches of contract, MIGA will also cover currency transfer risks. Its expropriation insurance will cover not only outright expropriations, but also "creeping expropriations," such as regulatory measures which are in fact expropriatory. This provision of insurance coverage should help stimulate otherwise sluggish foreign direct investment flows.

In its financial operation and organizational structure the MIGA will be similar to existing multilateral development banks. It is intended that it operate on sound financial principles and insure only economically viable projects. Developing countries as shareholders will have a significant financial stake in the success of the MIGA. Voting in the MIGA will be linked to the total number of subscribed shares, with developing countries having a specified percentage of the votes during a three year transition period. The United States has subscribed to 20.5% of the total stock assuming passage of the authorizing legislation.

CHAPTER 5.—INTER-AMERICAN DEVELOPMENT BANK MERGER OF INTER-REGIONAL AND ORDINARY CAPITAL

This provision was included as requested by the Administration. Because this capital merger requires an amendment to the charter of the Inter-American Bank Congressional action is required. This change will strengthen the financial position of the Bank but does not alter the institutions character or purposes.

Prior to 1976, the IDB had only an ordinary capital window, and covenants in certain long-term borrowings prevented total IDB gorrowings from exceeding the callable capital of the United States. When the IDB's Articles were amended in 1976 to permit entry of non-regional countries, IDB Members decided to create a new capital window-inter-regional capital—to permit the IDB to borrow against the capital of these new members. The long-term ordinary capital borrowings are expected to be retired by the end of 1986. The IDB therefore would like to merge the ordinary and interregional capital Merger will mean a single capital window backed by consolidated resources and possibly improved access to financial markets on more favorable terms.

Waiver of country program limitations under certain conditions

This provision, adopted last year by the Committee in the form of an amendment offered by Mr. LaFalce would permit the waiver of negotiated country limitations to access IDB lending if the Executive Directors agree to do so. This initiative is applicable to the U.S. negotiating position for the current IDB capital increase negotiations.

Under the present capital increase agreement negotiated several years ago various IDB borrower countries are limited in how much IDB lending they may receive during the life of the capital increase. This limitation was agreed to in an effort to protect countries' access to IDB lending, particularly the smaller Latin countries. This formula has, however, proved to be somewhat inflexible in cases where the absorbative capacity of a country for IDB lending has been reached but when another may be able to use the lending resource but cannot gain access due to the limitations imposed by the agreement.

This provision would therefore allow the waiver of such limitation provided that agreement to such a waiver would not deprive any other country of any resources which are available under the formula adopted upon negotiation of the increase in resources and the country for which the waiver would be made has a need for the resources made available and the capacity to absorb such additional resources.

SUBTITLE C—COMPETITIVE TRADE PRACTICES

BACKGROUND ON TIED AID

Tied aid or mixed credits is a blending of concessional foreign aid with commercial or official export credits. Official export credits are offered by governments to help finance their exports. Such credits are governed by informal international agreements among members of the Organization for Economic Cooperation and Development (OECD). These agreements set the basic terms for export credits and limit the amount of government subsidy. However, many foreign governments have been combining official export credits with foreign aid in a predatory manner to gain new markets overseas. By mixing credits, a government can offer low interest rates and long repayment terms that give its exporters a competitive advantage in world markets.

The practice of using tied aid was initially pioneered by the French as a way of stretching foreign assistance funds to win commercial contracts. Other industrialized countries followed suit, most particularly the Japanese. The total value of projects involving tied aid credit offers has expanded from about $900 million reported to the OECD in 1978 to more that $6.5 billion reported in 1985. This translates into a distorting predatory practice that take away country markets and jobs through lost export possibilities for American business. The U.S. has sought through Treasury to negotiate an end to what is clearly an unfair trade financing practice, but negotiations have been blocked by a number of countries, especially, Japan, France, and Italy.

In 1983 this Committee passed a legislation "Trade and Development Enhancement Act" (P.L. 98-181) mandating establishment of "defensive" tied aid program in the Export-Import Bank (Exim Bank) and Agency for International Development (AID). The "defensive" nature of the program would enable the U.S. Government to assist American exporters in responding to a specific tied aid credit offer (as distinguished from an "offensive" orientation that would permit the U.S. Government to initiate tied aid credit offers regardless of whether a foreign government is offering a tied aid credit on the project).

In the 1986 legislation Congress recognized the need for an aggressive approach to be taken with regard to tied aid credits and authorized funding for the program (P.L. 99-472). The fund is to be used to target the export markets of countries which exploit or abuse such credits and facilitate negotiations of international agreements to restrict the use of tied aid credits for commercial purposes. The program not only resulted in gains for exporters on these particular transactions, but progress as well in our negotiations.

However, testimonies from exporters organizations pointed out that increasingly, an exporter's access to mixed credit support is the key factor in making an export sale. Technological leadership, quality of service, and other important factors are becoming secondary consideration in may key overseas markets. Exports continue to be lost to foreign competition because of mixed credits.

In mid-March, 1987, an accord was reached by the U.S. and other industrialized countries tied aid. The accord seeks to discourage the use of tied aid by making it more costly for governments to offer such joint financing packages. The accord will raise in two stages the minimum permissible grant element from the current 25% to 35%. It will greatly improve the manner in which a grant element is calculated in order to raise the cost, in particular for countries such as Japan, West Germany and the Netherlands that traditionally maintain unusually low interest rates.

The new rules will be phased in two stages beginning in July. Under the first stage restrictions will be somewhat tightened on the use of tied aid for commercial purposes, while the second stage will represent an even more effective deterrent by making it extremely expensive for all countries to use their aid budgets for commercial purposes.

The Committee applauds the Administration's efforts in reaching an accord on restricting use of tied aid in export financing. However, the Committee believes that, there still needs to be legislation to show the other countries that the U.S. has the funds necessary and is willing to take aggresive action if other countries resume predatory financing through use of tied aid. The tied aid provisions of H.R. 3 serves that purpose.

Explanation of the provisions

The tied aid provisions in Subtitle C amends the Trade and Development Enhancement Act of 1983. First, the provisions change the unanimous consent requirement of the National Advisory Council on International Monetary and Financial Policies (NAC) to a majority vote requirement on proposals related to the tied aid fund. (NAC is an interagency group chaired by the Secretary of Treasury responsible for coordinating U.S. participation in international financial institutions and the activities of U.S. agencies that make foreign loan or participate in international exchange transactions.) The purpose of the change in voting procedures is to ensure input from each of the seven agencies represented in the NAC.

The Committee believes that the change would make sure that a specific proposal would not be held hostage by any one member of the NAC. Instead, exporters would be encouraged do make use of the program. Further, while the unanimous consent procedure has not resulted in any vetoes, it has, nonetheless, discouraged some exporters from making use of the program. The Treasury is against this change in the voting procedures because they say it is a "key element of the procedures established to avoid creating an expensive entitlement program." The Committee believes that since a sunset provision is contained in the bill, the fear that this could become an entitlement program is unfounded.

The sunset provision requires the President to let the Congress know 90 days in advance before he terminates the program. The advance notice would allow the Congress to examine the reasons for the termination.

In the original text, there was a requirement for a 30-day turn around on bids to Exim Bank. This provision was deleted because the Committee found that it was unrealistic to set such a time limitation.

The provisions also changes the Act to enable the Agency for International Development (AID) to use, at its discretion, all unearmarked Economic Support Funds.

Finally, the provisions requires a semi-annual report to Congress. Original text required a quarterly report, but the Committee believes that twice a year would be sufficient. In essence, the report would allow Congress to stay on top of the tied aid situation in the international marketplace, monitor OECD rate adherence, and gauge the implementation and use-effectiveness of an Exim/AID effort. It will ensure that the U.S. exporter, when confronted with a tied aid challenge, is not disadvantaged by an ineffective and underutilized resource specifically made available for the purpose of competitive financing.

EXPORT-IMPORT BANK PROVISION

Increasing U.S. exports is critical to our ability to improve our international trade position and deflect protectionist sentiment. To achieve this goal, we must increase the growth potential of developing country markets.

There are serious obstacles to doing so. The debt position of many developing countries has seriously limited their ability to import. Commercial banks have largely withdrawn from financing exports, especially in the riskier markets and on the riskier transactions often characteristic in developing countries.

It is important for the Export-Import Bank to increase its ability to assume a broader range of country and transaction risks and encourage the private sector to do the same. At the same time, it is important that the Export-Import Bank maintain its ability to operate efficiently and in a fiscally reponsible fashion. Some recent changes in the Bank's programs such as the differentiated fee structure are attempts to achieve that goal.

However, the problem is sufficiently serious that we must monitor closely the progress the Bank makes and consider additional policy and program changes that could facilitate additional financing of U.S. exports to debt-burdened countries as part of an overall debt management strategy.

The legislation would require that the Export-Import Bank submit a written report within 90 days after enactment that would assess the effectiveness of recent program changes, identify other policy and program changes that would increase Bank and private sector financing of U.S. exports to debt-burdened developing countries as part of an overall debt management strategy, and assess the cost of such programs.

The report must specifically assess the viability of setting up a separate class of programs for the major debt-burdened countries through which they would receive additional preferential treatment; introducing a less stringent standard of repayment for such countries; and expanding the Bank's guarantee authority to allow it to assume part of commercial bank exposure to debtor countries as part of a program to provide Export-Import Bank guarantees for new loans in support of U.S. exports.

SUBTITLE D—COUNCIL ON INDUSTRIAL COMPETITIVENESS ACT

BACKGROUND AND NEED FOR THE LEGISLATION

Last year the United States had a record trade deficit of $170 billion which followed a $150 billion trade deficit the previous year. In large measure, the U.S. trade deficit exists because America has been slow to respond to the highly competitive challenges of a global marketplace.

America's dominance in world markets has been deteriorating since the 1960's, however, during the 1980's the decline has been especially rapid. In 1960, America held 18% of the world trading market, but today, it only holds 11%. In a nation wih an economy as large and diversified and the U.S. economy, employment and economic stability depend on stable trade relations and implementation on a national level of coordinated policies and strategies to maximize American competitiveness abroad.

Restoring America's trading strength is a national priority that must be met in order to boost the American economy and improve opportunities for growth and prosperity here at home. Cutting off imports, however, or increasing tariffs and quotas is not the solution. The ability of the United States to be competitive in the export of goods and services depends largely on the establishment of national priorities, policies, and institutional practices directed at capitalizing on new and developing markets while maintaining mature markets.

Clearly, it is in the national interest for the Federal Government to help promote and facilitate American exports. In fact, an extensive network of programs and services to aid American exporters already exists. These programs, among other things, help exporters identify possible market opportunities in foreign nations, provide financing, and help monitor current economic conditions in foreign nations. Unfortunately, the cohesiveness and coordination necessary to make these programs truly helpful to American business is lacking.

There exists today a strong consensus for the need to establish a Council on Industrial Competitiveness to develop and coordinate long range strategies to assure the international competitiveness of American businesses and to coordinate the delivery of existing programs and services to U.S. exporters.

A council on industrial competitiveness is needed primarily to advise the President on the state of American business competitiveness in foreign markets and to articulate a plan or program for a competitive America. It must encompass the views and ideas of business, labor, academia, in a coordinated effort to regain America's international competitive standing.

In June of 1983, President Reagan appointed his own Commission on Industrial Competitiveness, composed of 30 distinguished Americans from business, labor, government, and academia. The Commission issued a report in January 1985 and recommended that policy changes be made to put emphasis on research and development, increase the supply of capital resources, develop human resources and improve trade and investment policies. Such recommendations, unless regularly updated and revised will quickly become ineffective to respond to the dynamics of the global marketplace.

The Council on Industrial Competitiveness responds to both the concerns and requests of the public and private sectors to establish coordinated strategies to promote exports and to develop a clear trade strategy.

The Council on Industrial Competitiveness is intended to coordinate an extensive network of programs and services already offered by the U.S. Government to exporters. This network includes the Departments of Agriculture, Commerce, Energy, Labor, State, and the Export Import Bank, the Overseas Private Investment Corporation, the Small Business Administration, the U.S. International Trade Commission, and the U.S. Trade Representative. Coordinating will certainly improve the effectiveness and efficiency of the Federal Government's assistance to business, and it will also provide important help in regaining some of the market position that has contributed to the unprecedented and very detrimental trade deficits recorded by the United States over the last 4 years.

HISTORY OF THE LEGISLATION

Subtitle D of H.R. 3, the Council on Industrial Competitiveness Act, was ordered reported with amendments by the Committee on Banking, Finance, and Urban Affairs by a record vote of 35 ayes to 15 nays on March 25, 1987. Prior to full Committee action, Subtitle D of H.R. 3 was ordered reported by the Subcommittee on Economic Stabilization by a vote of 14 ayes and 7 nays on March 18, 1987 following adoption of Chair Oakar's substitute amendment and 5 other perfecting amendments offered by Subcommittee Members.

The Subcommittee's action was preceded by a hearing on March 10, 1987 during which 17 witnesses including a representative from the Department of Commerce, and representatives from business, industry, labor, academia, and public interest foundations, in addition to a panel of distinguished international trade experts provided testimony. In their remarks, most of the witnesses focused primarily on whether a council on industrial competitiveness is necessary, if it is how such a council should be structured, and what role such an entity should have in formulating U.S. industrial and trade strategies.

Legislation to establish a Council on Industrial Competitiveness has a lengthy legislative history. Legislation similar to Subtitle D of H.R. 3, was introduced during the 98th and 99th Congresses. In both instances, it was considered by the Subcommittee on Economic Stabilization and reported by the full Committee on Banking, Finance, and Urban Affairs.

During the 98th Congress, the Subcommittee considered H.R. 4360, a bill to authorize the creation of a Council on Industrial Competitiveness to analyze the impact of existing Federal programs affecting industry and to make recommendations for policy changes that would coordinate and redirect these programs into an overall strategy promoting growth and competitiveness. Funding for the Council was authorized for Fiscal Year 1985 at $50,000,000. Additionally, H.R. 4360 contained other titles providing for the creation of a Bank for Industrial Competitiveness and a Federal Industrial Mortgage Association. The Bank was intended to fulfill unmet credit needs by stimulating private financing of projects that would enhance the competitiveness of American industry, and the purpose of the Federal Industrial Mortgage Association was to improve the functioning of capital markets for small to medium sized companies by increasing the availability of long-term lending. H.R. 4360, as amended, was ordered reported by the full Committee on Banking, Finance, and Urban Affairs on April 10, 1984, by a record vote of 25 ayes and 16 nays.

During the 99th Congress, the Subcommittee on Economic Stabilization considered H.R. 2373 to establish in the executive branch of government an independent agency to be known as the Council on Industrial Competitiveness. This bill was substantially similar to Title I of H.R. 4360 which was reported by the Banking Committee in the 98th Congress.

H.R. 2373 provided that the Council on Industrial Competitiveness would be an independent agency of the Federal Government comprised of 16 members chosen from business, labor, academia, and government whose function would be to develop and promote industrial strategies, assess private sector requests for government assistance and to develop conditions under which assistance would be granted, gather and analyze data concerning the competitiveness of U.S. industries, and to develop long-term strategies to address industrial competitiveness.

On April 17, 1986, the Subcommittee on Economic Stabilization reported H.R. 2373 to the full Committee on a voice vote; and on April 22, 1986, the Committee on Banking, Finance, and Urban Affairs ordered H.R. 2373 reported on a voice vote. The provisions in H.R. 2373, as reported by the Committee on Banking, Finance, and Urban Affairs are substantially similar to the provisions of Subtitle D of H.R. 3 that was introduced in the 100th Congress.

On March 18, 1987, at the mark-up of Subtitle D of H.R. 3, Chair Oakar introduced an amendment in the nature of a substitute which the Subcommittee favorably reported with amendments by a record vote of 14 ayes and 7 nays. The Subcommittee substitute improves the effectiveness of the Council by making it an advisory group to the President within the Exeuctive Office of the President. Changing the structure would prevent this agency from developing its own advocacy and avoid duplicating functions already performed in other departments and agencies of the Government. As an advisory group in the Executive Office of the President, the Council is assured the ear of the President, and statutory interference with other agencies is avoided. Additionally, the substitute, as reported by the Subcommittee, improves the coordination and delivery to U.S. businesses and industry of existing Federal programs and services to promote U.S. exports and improve U.S. competitiveness worldwide. The Subcommittee added a new section to the legislation to ensure the most effective delivery of governmental assistance to U.S. exporters of goods and services through the review and coordination of Federal export promotion programs. To accomplish this objective, the substitute requires review and coordination of Federal export promotion programs. According to this provision in the substitute, the President shall direct the Secretary of Commerce and the U.S. Trade Representative to conduct an investigation of export promotion programs, corrdinate the administration of such programs, and establish procedures for the timely dissemination of information concerning these programs. By providing the Council with a coordination function, the substitute obviates duplication of effort.

In addition to the Oakar substitute, the Subcommittee also adopted the following amendments. First, an amendment to reduce the authorization of appropriations from $15,000,000 to $5,000,000. Second, the Subcommittee also adopted an amendment to establish the terms of the members of the Council on Industrial Competitiveness to be concurrent with the President. Third, the Subcommittee adopted an amendment to require conditionality on the extension of assistance to industries or businesses in accordance with the provisions of the Act, such that an industry or business will have to provide to the Government how the assistance will improve its competitiveness or that of the industry. Additionally, an amendment was adopted requiring the Secretary of Commerce and the U.S. Trade Representative to report to the Council within 90 days on their comprehensive investigation of export promotion policies.

The full Committee also adopted amendments. The first amendment provides for a prohibition on employment as a foreign agent after service for certain council members and staff. The second amendment provides for the review and evaluation of trade negotiation capabilities.

SUMMARY AND DESCRIPTION

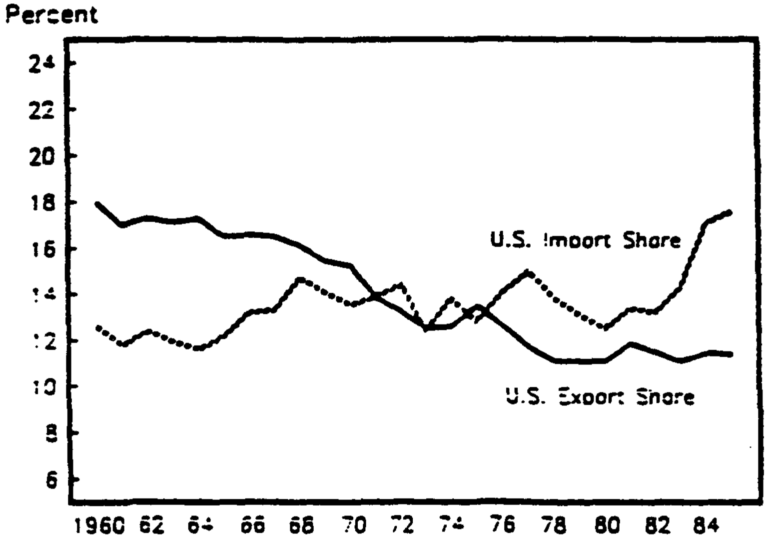
Subtitle D of H.R. 3 establishes a "Council on Industrial Competitiveness," which is an advisory committee in the Executive Office of the President. The need for this Council is well-founded. Over the years, the Untied States has declined with respect to worldwide manufacturing, productivity, deficits, and exports in the worldwide community. This decline has affected America's economy and its competitiveness in the world market. As mentioned in a 1983 publication of this Subcommittee entitled, "An Industrial Policy for America: Is It Needed," the trend is becoming clear enough. First, America's basic steel, textile, automobile, consumer electronics, rubber and petrochemical industries (and other high-volume industries that depend on them) are becoming uncompetitive in the world. Second, now that production can be fragmented into separate, globally scattered operations, whole segments of other American industries are becoming uncompetitive.

The Federal Government already has several operations to assist American industries in these areas. There is a network of programs, services and publications already available to exporters of U.S. goods and services in the several governmental units. The Department of Agriculture, the Commodity Credit Corporation, the Department of Commerce, the Department of Energy, the Department of Labor, the Department of State, the Office of the U.S. Trade Representative, the Agency for International Development, the Export Import Bank, the Overseas Private Investment Corporation, the Small Business Administration, the U.S. International Trade Commission, and the U.S. Trade Development Program, all in some way advise, promote, or offer aid with respect to industrial competitiveness. However, there is a lack of coordination in making information available to our industries.

The Council on Industrial Competitiveness will review, develop, and promote ideas to enhance the U.S. productivity, and prepare reports on the coordination of our various programs. The Council has many duties, including the creation of forums of national leaders from business, labor, academia, public interest activity, and Government to 1) identify national economic problems, 2) develop recommendations to address these problems, and 3) create a broad consensus in support of these recommendations. These forums may be set up for specific industries and made up of representatives of public and private leaders representing the major economic interests affected by sectoral policies.

EXHIBIT 1

U.S. SHARE OF WORLD EXPORTS & IMPORTS 1960–85



SOURCE: UNITED STATES TRADE, PERFORMANCE IN 1985 AND OUTLOOK
U.S. DEPARTMENT OF COMMERCE

EXHIBIT 2

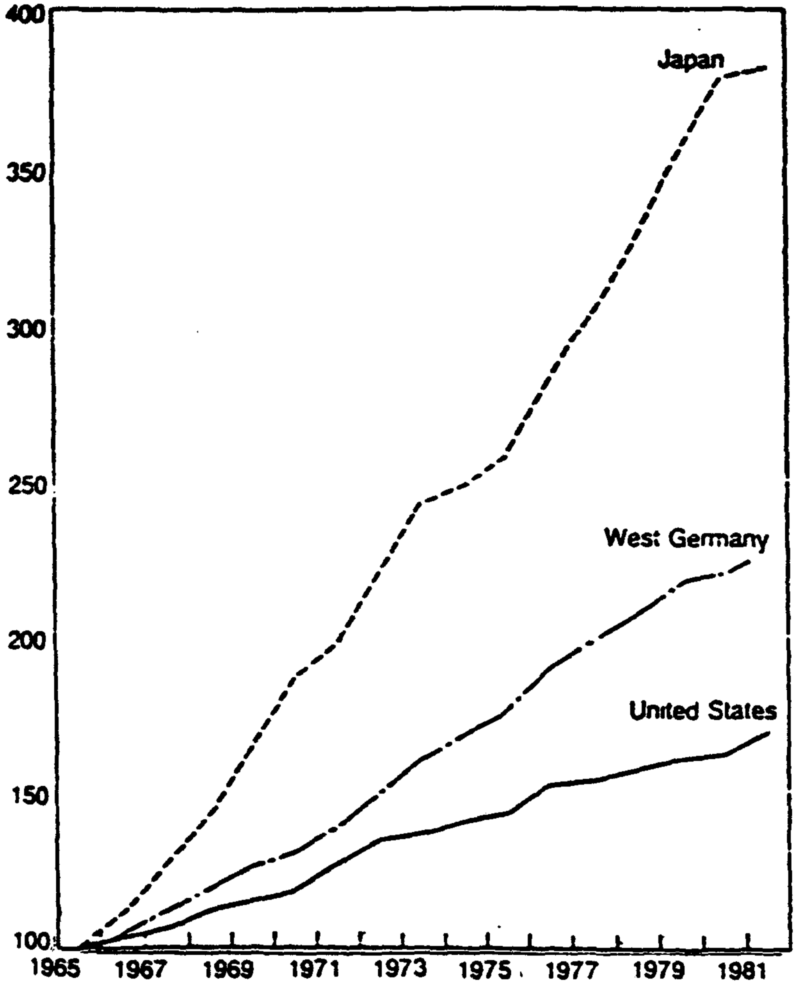
The Largest U.S. Bilateral-Trade Deficits

Country	— Deficit — a-1986 9 Mos	a-1985 9 Mos	U.S. Dollar Change Vs Foreign Currency 9/85-12/86	Products Exported to U.S.
Japan	$43,671	$34,659	-34.0%	automobiles and parts, steel, electronics
Canada	18,803	16,474	+0.3	automobiles and parts, lumber, machinery
W. Germany	11,415	8,367	-32.0	automobiles and parts, chemicals, machinery
Taiwan	10,716	9,085	-12.0	apparel, electronics, telecommunications gear
S. Korea	4,788	2,926	-3.0	textiles, electronics, automobiles, steel
Italy	4,549	3,711	-29.0	apparel, footwear, machinery
Hong Kong	4,303	4,150	-0.2	apparel, electronics, telecommunications gear
Mexico	4,013	4,326	+135.0	automobiles and parts, oil, machinery
Britain	3,534	2,540	-7.0	oil, vehicles, chemicals, machinery
Brazil	2,516	3,622	-109.0	iron, steel, coffee, oil
Switzerland	2,485	1,026	-31.0	chemicals, machinery, pharmaceuticals
France	2,455	2,656	-25.0	automobiles and parts, steel, machinery, wine
Indonesia	1,981	2,898	+47.0	oil, rubber, coffee
Sweden	1,886	1,751	-19.0	automobiles, steel, machinery
Venezuela	1,659	2,025	0.0	oil, metals
Nigeria	1,591	1,568	x	oil
Algeria	1,042	1,473	x	oil
Singapore	1,017	635	-0.9	apparel, electronics, telecommunications gear
South Africa	891	631	-17.0	metals, chemicals
Denmark	712	671	-28.0	furniture, meat
Ecuador	639	886	+34.0	wood, oil, textiles
India	633	602	+8.0	fibers, apparel, oil, misc manufactured items
Malaysia	512	513	+4.0	rubber, apparel, electrical machinery
Philippines	493	590	+11.0	apparel, electrical products, wood
Angola	438	629	x	oil

a-In millions.
x-No quotes available — insufficiently traded.
Source: U.S. Commerce Department.

EXHIBIT 3

Manufacturing Productivity: Japan, United States, and West Germany, 1965-81
(Index, 1965 = 100)



Source: Otto Eckstein, *The DRI Report on U.S. Manufacturing Industries* (New York: McGraw-Hill Book Company, 1984).

EXHIBIT 4

Government Assistance to Selected Industries, Fiscal Year 1980 (in $ millions)

	Type of Assistance				
Industry	*Research and Development*	*Other Direct Expenditures*	*Tax Expenditures*	*Procurement*	*Outstanding Loans and Loan Guarantees*
Coal	$942	$120	$530	$0	$0
Forest products	14	130	455	49	0
Dairy	11	347	0	448	0
Nuclear	5,810	113	0	1,628	0
Cotton	8	232	0	0	0
Petroleum	273	174	3,350	3,733	0
Commercial fisheries	24	3	0	0	103
Maritime industry	16	585	70	4,075	6,342
Railroad industry	55	2,491	0	3	2,064
Housing industry	53	6,760	23,225	3,044	157,708
Automobiles and highways	108	1,394	0	1,217	940
Aviation	1,393	2,994	0	7,159	558
Steel	5	45	50	229	393
Semiconductors	55	0	0	4,600	0
Textiles	0	60	0	428	0

Source: Office of Management and Budget, budget of the U.S. government 1980: Congressional Budget Office. "Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1981-1985," report to the Senate and House committees on the budget. Washington, D.C., Office of Federal Procurement Policy, *Federal Contract Awards* (1979); General Accounting Office, *A Methodology for Estimating Costs and Subsidies from Federal Credit Assistance Programs* (1980). This table originally appeared in Robert Reich, "Why the U.S. Needs an Industrial Policy," *Harvard Business Review* (January–February 1982): 78. Reprinted by permission of the *Harvard Business Review*.

SUBTITLE E. EXPORT TRADING COMPANY AMENDMENTS

HISTORY OF THE LEGISLATION

Subsequent to Senate passage of S. 734, the Export Trading Company Act of 1982, which was referred to the House Banking, Finance and Urban Affairs, Judiciary and Foreign Affairs Committees, Chairman St Germain introduced H.R. 6016, the Bank Export Services Act, on March 31, 1982. The Full Committee ordered the bill favorably reported as amended on June 23, 1982, after extensive subcommittee hearings. H.R. 6016 was subsequently considered on the House floor under suspension of the rules and passed by voice vote. The Bank Export Services Act represented a significant departure from the long standing policy of separating banking from commerce in that it allowed bank holding companies to assume equity positions in and operate bank-affiliated export trading companies.

During Conference Committee consideration, the Senate agreed to adopt the basic statutory framework, as set out in H.R. 6016, within which bank-affiliated export trading companies would operate. The bill placed ETCs within the bank holding company structure rather than within the bank, as the Senate bill had, in order to ensure a minimal federal regulatory presence. On October 8, 1982, President Reagan signed S. 734 into law and it became P.L. 97-290, The Export Trading Company Act of 1982. The Bank Export Services Act, Title II of the ETC Act of 1982, allowed banks to develop and finance export trading companies in the U.S.

Following passage of the Export Trading Company Act, the House Foreign Affairs and Government Operations Committees as well as the Senate Banking, Housing and Urban Affairs Committee held oversight and implementation hearings on the Act. Toward the end of the 99th Congress, the House passed H.R. 4800, the Omnibus Trade Act. Amendments proposed by the Foreign Affairs committee were withdrawn after a floor colloquy in which Chairman St Germain stated that the Banking, Finance and Urban Affairs Committee would review the matter with both the Federal Reserve and Commerce Department with a view toward further consideration in the 100th Congress.

Pursuant to this floor discussion, the Banking, Finance and Urban Affairs Committee initiated staff discussions with the Federal Reserve and the Department of Commerce to consider Administration and other proposed amendments to the Export Trading Company Act of 1982. On March 17, 1987, Chairman St Germain and Congressman John La Falce, an early supporter of export trading company legislation, introduced H.R. 1661. This bill was designed to facilitate the use of bank-related ETCs to increase U.S. exports, to effect a positive change in the U.S. trade deficit and to create manufacturing jobs.

H.R. 1661 is the culmination of a number of export legislative measures which began when the 97th Congress endeavored to reduce regulatory and statutory export barriers to encourage more American businesses to become involved in exporting. In considering general trade matters, Congress focused on both trade incentives and disncentives. The Banking, Finance, and Urban Affairs

Committee directed its attention to increasing bank export financing to facilitate the exportation of U.S. produces goods and services.

The Administration continues to be supportive of bank ETCs as a vehicle to address the current trade deficit. In testimony before the Subcommittee on Financial Institutions on March 24, 1987, Secretary Baldrige of the Department of Commerce summarized the ways in which the 1982 Act seeks to increase U.S. exports and competitiveness:

> It encourages more efficient provision of export trade services to domestic producers and suppliers. It improves the availability of trade finance. And, it removes antitrust risks for export activity.

Hearings on H.R. 1661 were held by the Subcommittee on Financial Institutions on March 24, 1987. The Subcommittee heard from Senator John Heinz of Pennsylvania; Representative Don Bonker of Washington; the Honorable Malcolm Baldrige, Secretary of Commerce; the Honorable Manuel Johsnon, Vice Chairman, Board of Governors, Federal Reserve System; Mr. Kenneth Rosenberg, President of First Interstate Trading Company; Mr. Ralph Chew, President of Chew International Corporation and National Association of Export Companies, Inc.; and Ms. Julia Nord, Manager of Trade Services, Massachusetts Port Authority.

During the hearings, the importance of export trading companies in expanding U.S. export capabilities and competitiveness was addressed. The witnesses also emphasized the fact that the generally unfavorable U.S. economic climate was the major factor in accounting for the less than enthusiastic response to the 1982 Act. As Senator Heinz stated:

> Part of the problem for our ETCs, of course, has been the trade environment since 1982: a surging dollar, collapsing markets in Latin America, and unfair trade practices overseas. It would have been a truly heroic entrepreneur who managed to start a successful new export business during a period of rapid import penetration, stagnant export growth, and a trade deficit up *325 percent* in five years.

Following these hearings, the Banking, Finance and Urban Affairs Committee adopted the provisions of H.R. 1661 as a portion of Title IV of H.R. 3 on March 25, 1987.

NEED FOR LEGISLATION

CREATING JOBS THROUGH EXPORTS

Despite the passage of the Export Trading Company Act of 1982, American business continues to have a need for the international marketing expertise that bank related Export Trading Companies can provide. This need is particularly urgent for small producers of goods and services. Since passage of the Act, the Federal Reserve Board has approved 43 Bank Holding Company investments in bank related Export Trading Companies. Regrettably, of the 43 approved, 14 have since ceased operations and only a handful have approached the level of succuss originally envisioned when they were created. Original expectations for this Act optimistically projected the creation of more than 300,000 new jobs by increased exports. Certainly in light of the increasing trade deficit, the adverse international economic condition and the erosion of our domestic industrial base, those projections proved unrealistically high.

The Committee is troubled that bank related ETC investments are very unusual for smaller or regional banks. 10 out of the 17 largest bank holding companies have ETCs; fully one third of all ETCs currently operating. There has not been much interest evidenced from regional banks or from the cooperative efforts by groups of smaller banks which was specifically authorized by the Act. Greater participation of smaller or regional banks would increase the number of jobs created by exports.

There exists a perception within the banking community that the Federal Reserve Board Regulations have been overly restrictive. In examining the Board's regulations and listening to the concerns expressed by the industry, the Committee concluded that in general the Board's regulations are an accurate implementation of Congressional intent. There are, however, as a result of experience, some regulations which have proven to exceed that which is necessary to ensure safety and soundness. There can be no doubt that recent economic conditions including an overvalued dollar, not statutory or regulatory restrictions on bank related Export Trading Companies, have been the most overwhelming factor in inhibiting the success of bank related export trading companies. Representative Don Bonker, one of the authors of the original Act and recognized as a leading spokesman for increased United States exports, said in testimony before the Subcommittee:

> When the Export Trading Company Act was signed into law, both Congress and President Reagan heralded its enactment as the dawning of a new age for American exporters and a major step forward in increasing U.S. export competitiveness. This new age was characterized by a high dollar exchange rate, sluggish growth of economic activity in foreign industrial countries, a drop in imports of countries experiencing debt burden difficulties and intense international competition. All in all, it was a very hostile environment in which to launch a new business.

The Committee hopes that additional flexibility through limited regulatory relief may encourage more financial institutions to avail themselves of the provisions of this Act.

BANKING AND COMMERCE SEPARATION

There simply exists no basis for departing from the limited exception to the principle of the separation of banking and commerce beyond that provided in the 1982 Act. The House Committee Report accompanying H.R. 6016 spoke directly to this issue:

> There is a long tradition of separating banking and commerce. As a result of practices evident in the period leading up to the crash of 1929 and the bank closings in the 1930s, legislation was enacted which created a wall be-

tween the operations of depository institutions and other fields of commercial enterprise. This wall was believed necessary to assure that the institutions which hold the financial deposits of U.S. industry and commerce were operated in a safe and sound manner and that concentrations of power resulting from combinations of banking and commercial firms were minimized. Over the years since passage of that legislation, Congress has allowed some exceptions to this separation. In particular, bank holding companies have been allowed to engage in activities which are "closely related to banking." These exceptions reflect the changing nature of the financial services industry and the development of new product lines and needs in the marketplace.

The Bank Export Services Act was a limited exception to the separation of banking and commerce. The Joint Explanatory Statement of the Committee of Conference accompanying the Conference Report on S. 734, the Export Trading Company Act of 1982, PL 97-629, was clear in this regard:

> By placing the ETC within the bank holding company structure rather than within the bank, as the Senate bill provided, the conferees believe that adequate safeguards will continue to exist to minimize potential risk to the bank or banks within the holding company structure and that adequate separation will exist between a bank's involvement in export trade activities and its deposit taking function.

The conferees believed that many of the safeguards contained in the bank holding company structure are restrictions upon the activities of bank and nonbank affiliates. The 1982 Act restricted bank related export trading companies to facilitating U.S. exports rather than directly producing goods or services to be exported.

This legislation maintains that separation of banking and commerce. The Committee believes that passage of the Bank Export Services Act represented a highly circumscribed and well defined experiment in allowing finanical institutions limited participation in activities not traditionally or closely related to banking. However it did so within a regulatory framework replete with protections for the safety and soundness of insured institutions and the banking system itself. This policy remains unchanged.

Issues Considered by the Committee

REVENUE TEST OF 50 PERCENT

The purposes of the Bank Export Services Act was to increase the exportation of U.S. produced goods and services. In an effort to further this objective, the Committee adopted a number of significant amendments to the Act. The Act authorized a limited structured experiment in heretofore not considered closely related to banking activities by bank related export trading companies, principally engaged in exporting U.S. produced goods and services.

The first of those amendments relates to the "principally engaged in" issue. The Committee believes that Federal Reserve Board Regulations which require that 50% of a bank related export trading company's revenue is generated from export activities correctly implemented the intent of Congress. The Committee is hopeful that by expanding the nature of the revenues that can be considered export revenues it can increase incentives for bank related export trading companies to become more of an active participant in our nation's trade effort.

The Committee is sympathetic to the concern that the Board's regulations do not recognize that a domestic enterprise which facilitates trade between two nations and which remits the revenue it receives back to the United States does contribute to the balance of payment. In addition, arranging for export trade services to facilitate third party trade is a service permitted under the Act. As a result, the legislation includes a provision which permits bank related ETCs to count as export revenues, fees collected from arranging for export trade services in connection with third party trade if the fees so generated are remitted back to the United States. In order to ensure that bank related ETCs continue to facilitate the export of U.S.-produced goods or services, the legislation permits no more than 50% of its export revenue may be composed of such fees.

The Committee wants to emphasize that it believes that greater involvement in and knowledge of international markets by bank related export trading companies in this difficult period can be fruitful for the export trading companies in the future. Combined with other changes made by this legislation such as the two year grace period and the longer determination period, this is a recognition of the years of work and experience needed to develop expertise in international marketing.

H.R. 3 provides a two year start up period before beginning the time period for measuring compliance with the requirement that 50% of an Export Trading Company's revenue must be generated from exports. The Committee heard testimony which revealed the difficulties that may inhibit a new ETC from generating sufficient export revenue to be in compliance. Historically, successful export trading companies have taken many years to establish markets. In a very competitive and crowded field, it is not realistic for an ETC to begin meeting the 50% revenue test immediately.

The Bill also increases the period for determining compliance with the 50% test. Federal Reserve Board regulations currently measure compliance over two years. The Bill permits a compliance determination period of not less than four years. Export trading companies are subject to many factors which may temporarily limit their ability to generate 50% of their revenues from exports. Especially prominent in this regard is fluctuation in the value of currencies, lack of growth in foreign economies or the imposition of trade restraints. This longer time period will provide a greater opportunity for ETC to remain in compliance.

The Committee reemphasizes, however, that in order to gain the necessary experience and knowledge, it is not necessary for bank related export trading companies to change their focus from promotion of U.S. exports to the promotion of international trade per se. The Committee remains hopeful that with these amendments and a more favorable international economic environment the Act will fulfill its primary purpose of the establishment of more bank related export trading companies, the furtherance of U.S. exports and the creation of new jobs.

APPLICABILITY OF SECTION 23A TO BANK RELATED ETC'S

A recurring and somewhat confusing issue relative to bank related export trading companies is the applicability of Section 23A of the Bank Holding Company Act. The Committee feels it is appropriate to take this opportunity to clarify its intention in this regard.

One of the most important components of the bank holding company structure is the collateral requirements contained in Section 23A of the Bank Holding Company Act. These requirements form the basis of protection for insured institutions from the losses incurred by affiliates. The Committee finds it essential that these protections remain in place for extensions of credit between affiliates. The Board has provided an exception by regulation to these requirements in appropriate circumstances when the bank takes a security interest in goods or the proceeds from the sale of goods at least equal to the value of the loan where the goods are subject to a bona fide contract of sale. In this manner the Committee notes with approval that the Board has provided the flexibility we expected from a minimally necessary regulatory presence while at the same time maintaining the safeguards sufficient to protect insured institutions from losses.

In hearings before the subcommittee Manuel H. Johnson Jr., Vice Chairman, Board of Governors of the Federal Reserve System stated in a manner that could not be expressed more succinctly the Committee's reason for applying the collateral requirements of 23A to extensions of credit to bank related export trading company affiliates.

> An affiliate should not be able to use a bank's resources—except to the extent permitted by the provisions of section 23A. As the Board has consistently stated, if a bank-affiliated export trading company is creditworthy, it can obtain credit in the market even from a non-affiliate. If an export trading company is not creditworthy, an affiliated ban should not be placed at risk by being able to lend without collateral.

The Committee was unable to document the contentions of some who believe that the applicability of 23A inhibits the formation or growth of bank-related ETCs. In addition, the Committee heard testimony which directly contradicted this contention. The President and C.E.O. of First Interstate Trading Company which is generally regarded as one of the most successful bank related export trading companies, Mr. Ken Rosenberg, spoke directly to this point.

> Proposals have also been made to exempt ETC's from the collateral requirements of Section 23A of the Bank Holding Company Act of 1956 applicable to institutions that borrow from affiliated banks. FITC [First Interstate Trading Company] has not found this provision of 23A to

be unworkable. The July 8, 1983 Amendments to Regulation K include a waiver of the collateral requirements of 23A which reduces the required collateral to at least equal in value to the letter of credit or advance where the letter of credit or advance is used to acquire goods for which the ETC has a binding resale commitment. Since FITC engages only in transactions where the goods are pre-sold to a qualified buyer, 23A does not present a problem to our firm under existing regulations.

The Committee studied the limited surveys and reports conducted by the Department of Commerce and the Federal Reserve Board and failed to find any evidence that Section 23A has hindered the ability of bank related export trading companies. As a result the Committee finds the current regulatory requirement of the Board to be reasonable and to conform to the intent of Congress that section 23A as revised in the Garn-St Germain Act, applies to extension of credit of bank related export trading companies. The Committee remains prepared to reexamine this issue in the future should new information come to light or circumstances substantially change.

SERVICES PROVIDED BY BAN RELATED EXPORT TRADING COMPANIES

The Committee finds that an expansion of the opportunities for bank related export trading companies to provide appropriate services in facilitation of trade is warranted. The Committee believes that allowing bank related export trading companies to count as export revenue the fees they collect from facilitating the provision of services to third party trade will substantially increase the opportunity bank related export trading companies have to engage in international trading activities. Because this revenue will no longer be considered as import revenue, the bank related export trading companies will be able to obtain the experience and knowledge necessary to assist the export of U.S. produced goods and services. In this regard, the expanded opportunities for bank related export trading companies are consistent with the fundamental purpose of the 1982 Act.

The Committee understands the motivations of many in the banking community who feel that bank related export trading companies should be permitted to engage in a far wider range of activities than are currently permitted by law or regulation. Indeed such a change in policy could conceivably result in more active and profitable bank related export trading companies. However, the Committee is concerned that such a change could authorize the provision of services that bear little resemblance to the kinds of services which would create more U.S. exports. The Committee is not convinced that U.S. employment or exports would be increased by permitting bank holding companies to perform foreign banking operations in a bank related export trading company. Nor is the fundamental purpose of the Act advanced by permitting bank related export trading companies to engage in services not already authorized which bring them in direct competition in overseas markets with other U.S. firms.

REGULATORY FLEXIBILITY

The Committee received testimony that the regulations published by the Federal Reserve Board were overly restrictive. Many areas were mentioned however two regulations stand out as instances where it is appropriate to provide some regulatory relief.

The Board currently limits the dollar value of bank related ETC's inventory to $2 million or less. While the Board does consider waivers from the limitation, the mere existence of such a limit may reduce the flexibility an ETC needs to react to a rapidly changing market. H.R. 3 contains a provision which prohibits the Board from publishing a regulation placing a dollar limitation on an ETC's inventory. However, the Committee believes that large inventories can indeed be a danger to the financial health of an ETC and may even threaten the parent banking organization. This provision recognizes that a responsible inventory cannot be assured by applying the same limit to all export trading companies, but rather is a function of the size of the ETC and the products being held.

This is a legitimate concern which the Federal Reserve Board has a responsibility to monitor. Therefore H.R. 3 includes a provision which permits the board on a case by case basis, to issue an order which places a dollar limit on the size of the inventory of a particular ETC. The Board shall provide a reasonable amount of time for initial operation of bank related ETC before imposing the limit and it must find that the limit is needed to protect the safety and soundness of a bank of the bank holding company.

In complying with the directions to delegate as much as is possible to the Reserve Banks the Board has permitted a Reserve Bank to approve investment in ETCs with an asset to capital ratio less than 10:1. Investments in ETCs with leverage ratios greater than that have required Board approval. While the Board has approved the only two applications it received in excess of 15:1, (both 17:1) the Committee feels that unless there are other compelling reasons asset ratios of 15:1 or less should not be denied and be handled at the Reserve Bank level.

SUMMATION

The Committee is concerned about the effects of trade deficits upon the future economic condition of the nation. The changes in the Export Trading Company Act of 1982 contained in H.R. 3 provide needed regulatory relief to encourage greater use of bank related export trading companies and still maintain their basic export promotion function.

The proposals for changes in the 1982 Act focused on six areas. The Committee adopted the recommendation of the industry for an end to strict dollar volume limits on inventories. The Committee also adopted recommendations contained in several proposals which lengthened the determination period from two to not less than four years and to provide a two-year startup period.

This legislation also contains, with some modification, the provisions of proposals received by the Committee to increase the permitted leveraging ratios of assets to capital. The Committee also recommends that facilitation of third party trade be recognized as an export activity under certain conditions.

While the Committee incorporated four of the six changes proposed by the Administration and industry representatives, it reserves until later further consideration of the issues surrounding the applicability of section 23A and the maintenance of the "principally engaged in exporting" requirement depending upon the development of compelling evidence.

The Committee hopes that these changes will encourage more financial institutions to take advantage of the provisions of this Act, promote an increased level of American exports, and result in the creation of new jobs.

SUMMARY OF THE LEGISLATION

The Bank Export Services Act of 1982 requires that a bank-related ETC be operated "principally" for purposes of exporting. By regulation, the Federal Reserve Board requires that at least 50% of an ETC's revenue be generated from exports during a two-year determination period. In recognition of the difficulties encountered by new export entities, H.R. 1661 would amend the Act to allow a two-year start-up period before the determination period would begin. The bill increases this determination period during which an ETC must generate at least 50% of its revenue from exports from two years to not less than four consecutive years.

In order to assist in the development of export trading companies and to further assist those companies already in existance, H.R. 1661 would also allow an ETC to count toward its export revenue, fees received for facilitating third country transactions. It should be emphasized that these revenues would be included as export revenue only if they are remitted to the United States. In addition, no more than 50% of an ETC's total export revenues can come from revenues derived from facilitating third country trade. "Facilitation" is clearly circumscribed to prohibit an ETC from counting as export revenues the fees it receives from itself providing the services in question; the ETC can only count as export revenue the fees it receives from arranging not providing, trade services to third party trade.

The Bank Export Services Act provides that the Board may disapprove a bank's ETC investment on grounds of safety and soundness, concentration of resources, competitive concerns, conflict of interest, failure to furnish information, or because of a lack of managerial resources. However, in order to facilitate timely approval of investment applications, a goal supported by the Banking Committee, the Board has, by regulation, delegated authority to the Reserve Banks to establish an assets to capital ratio of less than 10:1. Authority has likewise been delegated for inventories not subject to firm orders of less than $2 million.

H.R. 1661 would direct that the leveraging ratio be increased to 15:1 and would specifically prohibit the Board from placing, by regulation, dollar limits on inventories. It would, however, allow for individual determinations by the Board that a particular inventory level was affecting the financial or managerial resources of an investor bank holding company to such an extent that it risked the safety and soundness of any subsidiary bank of such bank holding company.

STATEMENTS MADE IN ACCORDANCE WITH HOUSE RULES

In accordance with clauses 2(l)(2)(B), 2(l)(3), and 2(l)(4) of rule XI of the Rules of the House of Representatives, the following statements are made.

COMMITTEE VOTE (RULE XI, CLAUSE 2(l)(2)(B))

The Full Banking Committee, with a quorum present, ordered title IV of H.R. 3, as amended, favorably reported by a recorded vote of 35 ayes and 15 nays at its markup on March 25, 1987.

OVERSIGHT FINDINGS AND RECOMMENDATIONS (RULE XI, CLAUSES 2(l)(3) (A) AND (D), AND RULES X, CLAUSES 2(b) (1) AND (2) AND 4(c)(2))

Based upon hearings conducted by the Subcommittee on Development Institutions and Finance, the Subcommittee on International Finance, Trade and Monetary Policy, the Subcommittee on Economic Stabilization and the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, the Committee finds that there is a need for legislation to make the United States more competitive in world markets and to address the many aspects of the problems related to third world debt.

Accordingly, the Committee recommends that the House pass title IV of H.R. 3, as amended, the title that accomplishes the objectives reflected in these findings.

No formal oversight findings or recommendations have been submitted by the Committee on Government Operations.

INFLATION IMPACT STATEMENT (RULE XI, CLAUSE 2(l)(4))

The Committee estimates that this title will not have any impact on any inflationary trends in the national economy.

COST ESTIMATE OF THE CONGRESSIONAL BUDGET OFFICE PURSUANT TO SECTION 403 OF THE CONGRESSIONAL BUDGET ACT OF 1974 (RULE XI, CLAUSE 2(l)(3)(C))

The Committee has received the following report from the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 6, 1987.

Hon. FERNAND J. ST GERMAIN,
Chairman, Committee on Banking, Finance, and Urban Affairs, House of Representatives, Rayburn House Office Building, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate for Title IV of H.R. 3.

If you wish further details on this estimate, we will be pleased to provide them.

71-487 O - 87 - 4

With best wishes,
Sincerely,

EDWARD M. GRAMLICH, *Acting Director.*

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

1. Bill number: Title IV of H.R. 3.
2. Bill title: Trade and International Economic Policy Reform Act of 1987.
3. Bill status: As ordered reported March 25, 1987, by the House Committee on Banking, Housing, and Urban Affairs.
4. Bill purpose: Title IV of H.R. 3 would make a make a number of changes affecting domestic and international trade policy. Potential budgetary effects stem largely from Chapters 4 and 5. Chapter 4 would authorize the United States to accept membership in the Multilateral Investment Guarantee Agency, and authorizes the appropriation of $222 million for the purchase of capital stock in the agency.

Chapter 5 would establish in the Executive Office of the President an advisory committee, the Council on Industrial Competitiveness, to develop and promote policies that enhance productivity and international competitiveness. The bill authorizes the appropriation of $5 million for this purpose in 1988. In addition, the bill would require the Secretary of the Treasury and other federal agencies to prepare various reports on trade issues.

5. Estimated cost to the Federal Government: The specific authorizations in the bill would result in the following costs, assuming appropriation of the necessary funds.

[By fiscal years, in millions of dollars]

	1988	1989	1990	1991	1992
Multilateral Investment Guarantee Agency:					
Estimated callable capital subscriptions	89	89			
Estimated authorization level	22	22			
Estimated outlays	11	11			
Council on Industrial Competitiveness:					
Authorization level	5				
Estimated outlays	4	1			
Bill total					
Estimated callable capital subscriptions	89	89			
Estimated authorization level	27	22			
Estimated outlays	15	12			

In addition, the bill would require 15 reports and would also assign a foreign commercial officer to a new position in each of the multilateral development banks. While no funds are specifically authorized for these positions or to conduct the studies, it is estimated that costs of up to $5 million in 1988 and about $1 million in each fiscal year thereafter could be incurred as a result of these requirements, assuming appropriations are made available for these purposes.

The costs of this bill fall within functions 150 and 800.

Basis of estimate: For purposes of this estimate, we assume that H.R. 3 will be enacted by July 1, 1987.

Section 442 authorizes the appropriation of $222 million for the purchase of capital stock of the Multilateral Investment Guarantee Agency (MIGA). Consistent with information in the Administration's 1988 budget, the estimate for purchase of capital stock in the MIGA assumes the appropriation of 20 percent of the amount authorized for a paid-in capital subscription, with half of the paid-in capital to be provided as a cash payment and half as a letter of credit. It is assumed that 80 percent of the authorized amount will be provided as a limitation on callable capital subscriptions. Section 442 further limits the fiscal year 1988 appropriation to $22 million. This is roughly half the amount assumed for paid-in capital; therefore, the estimate assumes the subscription would be phased in over a two-year period.

Assuming the appropriation of $5 million for the Council on Industrial Competitiveness in 1988, CBO estimates outlays be $4 million in 1988 and $1 million in 1989. Because the council would be a new permanent agency, these costs would likely continue into the future.

6. Financing mechanism: Spending authorized by this bill is subject to appropriation action.

7. Estimated cost to State and local governments: None.

8. Estimate comparison: The estimated authorization level and outlays for the Multilateral Investment Guarantee Agency are the same as those provided by the Administration.

9. Previous CBO estimate: None.

10. Estimate prepared by: Joe Whitehill, Mary Maginniss, and Jim Hearn.

11. Estimate approved by: James L. Blum, Assistant Director for Budget Analysis.

Section-by-Section Analysis

Subtitle A—Competitive Exchange Rate Act of 1987

SHORT TITLE

Section 401—Section 401 states that the Act is entitled the "Competitive Exchange Rate Act of 1987."

FINDINGS AND PURPOSES

Section 402—Section 402 states the findings and purposes.

INTERNATIONAL NEGOTIATIONS ON EXCHANGE RATE REFORM

Section 403—This section directs the President to initiate international negotiations to achieve modifications in the international exchange rate system.

Subsection (a) states that a priority in international economic negotiations shall be the achievement of a competitive exchange rate for the dollar.

Subsection (b) requires that the President seek to confer and negotiate with other countries, either through a newly-created mechanism or an existing mechanism, for purposes of: reviewing the functioning of the existing international exchange rate system; developing a program for modification of that system to provide for long-term exchange rate stability and an agenda for implementing such a program; and recommending proposals to achieve better coordination of macroeconomic policies among the major industrialized nations and greater stability in trade and current account balances and in the exchange rates of the dollar and other currencies.

Subsection (c) requires the President to initiate bilateral negotiations on an expedited basis, when the actual exchange rate of a major trade competitor is depressed below its competitive exchange rate through any form or informal tie of its currency to the United States dollar, for the purpose of ensuring that such competitor regularly and promptly adjusts the rate of exchange between its currency and the United States dollar to accurately reflect international competitive relationships.

CURRENCY INTERVENTION

Section 404—This section directs the Secretary of the Treasury, in consultation with the Chairman of the Board of the Federal Reserve, to use existing authority to intervene in currency markets, when the Secretary deems it appropriate, to move the dollar toward its competitive exchange rate.

Subsection (a) directs the Secretary, in consultation with the Chairman of the Federal Reserve, to purchase and sell foreign currencies at those times that such action would be most effective to offset speculative movements of the dollar away from its competitive exchange rate or to assist the gradual movement of the dollar toward a competitive exchange rate.

Subsection (b) provides that these actions shall be coordinated with other countries to the extent possible.

REPORTING REQUIREMENTS

Section 405—This section requires the Secretary of the Treasury, after consultation with the Chairman of the Federal Reserve, to submit reports to the Congress on progress in achieving exchange rate reform.

Subsection (a) directs the Secretary of the Treasury to submit independent written reports within 30 days of the enactment of this Act and on April 20 and September 20 of each year thereafter.

Subsection (b) states that the reports shall contain (1) an assessment of exchange rate market developments and the relationship between the United States dollar and the currencies of our major trade competitors; (2) an evaluation of the conditions responsible for the existing conditions in the exchange rate market; (3) an assessment of the impact of the exchange rate of the United States dollar on the ability of the U.S. to maintain a sustainable balance in its current account and merchandise trade account, the international competitive performance of U.S. industries, and potential increases in inflation and interest rates; (4) recommendations for changing U.S. economic policy to attain an appropriate and sustainable balance in the current account, together with an assessment of the costs and benefits of any such change; (5) any recommendations for changes in United States policies made by the International Monetary Fund through consultation requested by the Fund under Article IV of the Fund's Articles of Agreement and an explanation of how the Secretary has implemented or plans to implement any such recommendations, or why it is not appropriate to do so; (6) a report on progress made by the Secretary in adjusting the value of the dollar toward a level consistent with a sustainable current account balance, achieving long-term reform of the international exchange rate system, and negotiating with major trade competitors which tie their currencies to the dollar; (7) a statement of the objectives and plans to the dollar; (7) a statement of the objectives and plans of the Secretary with respect to the pursuit of domestic economic policies consistent with the achievement of current account balance, the policy on intervention in exchange markets, negotiations with other countries on reform of the international exchange rate system, and negotiations with major trade competitors which tie their currencies to the dollar; (8) an assessment of the overall effectiveness of currency intervention undertaken to adjust the value of the dollar; and (9) the reasons for any lack of progress regarding international negotiations on modification of the exchange rate system.

Subsection (c) provides that each report shall also analyze the extent to which the actual exchange rate of the currency of each major trade competitor of the United States differs from a value consistent with underlying international competitive relationships and any trend or policy which affects any such exchange rate or the international capital flows between or among any such countries and the United States.

Subsection (d) provides that the Board of Governors of the Federal Reserve may, as it deems appropriate, submit an independent report to the House and Senate Banking Committees on any of the issues described in the reporting section.

Subsection (e) provides that the Secretary of the Treasury shall consult with the House and Senate Banking Committees on the report after it has been received. After such consultation, each Committee shall submit to its respective body a report containing its views and recommendations with respect to the Secretary's intended policies.

REPORT ON CAPITAL FLOWS

Section 406—This section requires the Secretary, after consultation with the Federal Reserve, to submit to the House and Senate Banking Committees annual statistical reports on international capital flows and the impact of such flows on exchange rates and trade flows.

CONGRESSIONAL RECOGNITION OF THE RECOMMENDATIONS OF THE INTERNATIONAL MONETARY FUND

Section 407—This section requires that, upon completion of any consultation with the United States requested by the International Monetary Fund under Article IV of the Fund's Article of Agreements, the Secretary shall transmit to the Congress all official United States documents submitted to the Fund in the course of that consultation and all official Fund documents arising from that consultation.

DEFINITIONS

Section 408—This section defines terms for purposes of the Act.

SUBTITLE B—THIRD WORLD DEBT MANAGEMENT ACT

CHAPTER 1—SHORT TITLE; FINDINGS, PURPOSES; AND DEFINITIONS

Section 411—Short title

This Subtitle may be cited as the "Third World Debt Management Act."

Section 412—Findings

The Congress hereby finds that the indebtedness of developing countries represents a grave threat to the international trading system. The United States trade deficit with the developing countries exceeded $50 billion in 1985 and has cost over one million workers their jobs since 1980.

While the Baker plan represented a first step in addressing the third world debt problem, further steps are needed, particularly in light of the lack of new lending required by this plan. "If any debt initiative is to achieve its stated goals, then the Congress must act to provide a clear statement of United States policy on international debt management and trade liberalization and to provide direction to the President and other executive officers of the United States in carrying out such policy."

Section 413—Purposes

The purposes of this subtitle are as follows:

1. to alleviate the international debt crisis;
2. to expand the international trading system;
3. increase the stability of the international financial system;
4. support a debt initiative for the heavily burdened debtor countries; and
5. provide explicit directions to the President and the Secretary of the Treasury.

Section 414—Definitions

CHAPTER 2—INTERNATIONAL DEBT MANAGEMENT AND ECONOMIC GROWTH

Section 421—Study of limited purpose special drawing rights to the poorest heavily indebted countries

This section would require the Treasury Department to undertake a study, in conjunction with officials from other IMF member countries, for the purpose of determining the feasibility of a one time only issuance of Special Drawing Rights by the International Monetary Fund. Such an issuance of SDRs would be targeted to the poorest developing countries who cannot currently meet the existing servicing requirements of their official debt. Treasury is required to report on the findings of the study within 90 days.

Section 422—Provisions relating to the regulation of depository institutions

It is the sense of the Congress that the Federal banking regulatory agencies should grant the widest possible latitude to the banks for negotiating principal and interest reductions with respect to obligations of heavily indebted sovereign borrowers.

It is the intent of the Congress that the Federal banking regulatory agencies apply to banking institutions maximum flexibility in determining the asset value of restructured loans to heavily indebted sovereign borrowers.

It is the intent of Congress that these agencies require depository institutions with substantial amounts of loans to heavily indebted sovereign borrowers to seek expanded recapitalization through equity financing to insure that prudent institutional capital to total asset ratios are established and maintained.

The Comptroller of the Currency, the Federal Reserve System and the Federal Deposit Insurance Corporation shall each conduct a study to determine the extent of any regulatory obstacle to negotiated reductions in the debt service obligations associated with sovereign debt.

In addition, the Secretary of the Treasury and the bank regulatory agencies are authorized to conduct a joint study of the profitability of sovereign lending of developing countries with the nine largest United States banks since 1976.

Section 423—Negotiations to establish a public debt management authority to address sovereign debt

The Secretary of the Treasury shall initiate negotiations with such industrialized and developing countries as the Secretary may determine to be appropriate to propose the establishment of a multilateral financing intermediary, which would be authorized to—

1. purchase sovereign debt of less developed countries from private creditors at a discount.
2. enter into negotiations with the debtor countries for the purpose of restructuring the debt.
3. assist the creditor banks in the voluntary disposition of their third world loan portfolio.
4. encourage Germany, Japan and other trade surplus nations to increase their investments in the debtor countries.
5. encourage other participating countries to change regulations and procedures to facilitate operation of the authority.

A study is authorized examining the feasibility of the creation of an insurance fund to support the activities of the multilateral debt management authority.

Section 424—Action by multilateral institutions

In conjunction with the establishment of the Public Debt Management Authority, the Secretary of the Treasury shall instruct both the Executive Directors of the IMF and the World Bank to determine the amount of assets held by either institutions which could be pledged as collateral to obtain financing for the activities of the authority.

In addition, the Secretary shall appoint a foeign commercial officer to serve with each of the United States Executive Directors of multilateral development banks. The purpose of such an appointment would be to assist U.S. firms in gaining access to procurement opportunities available through multilateral development bank financed projects.

Section 425—Reducing capital flight

It is the sense of the Congress that past and continuing transfers of capital from developing countries pose a problem of great importance for which a solution must be found before the international debt crisis can be resolved and economic growth in developing countries enhanced and sustained. This subsection urges the US Executive Director to initiate discussions with his counterparts to attempt to ease this problem.

Section 426—Study on certain IMF activities

The U.S. Executive Director of the IMF is instructed to conduct a study on the impact of the IMF's adjustment programs in the recipient countries and the role the IMF intends to play in helping to resolve the debt problem. The report is to be completed within six months of enactment.

Section 427—Structural adjustment lending

This section instructs the U.S. executive director of the World Bank to discuss with other country representatives means by which the economic reforms advocated in structural adjustment lending programs can be achieved while minimizing the negative impact of those reforms on the most vulnerable segments of the population. The Secretary is required to report to Congress on these discussions. Secondly, this section advocates that structural adjustment policy changes be consistent with environmentally sound development. The section also states that the Treasury should enter into negotiations within the appropriate multilateral banks for the purpose of providing small scale credit to the poor who currently do not have access to such credit.

Section 428—Equal access to Government instruments required

This section would prohibit any person of a foreign country as a primary dealer in government debt instruments from purchasing US debt instruments unless equal access is afforded U.S. companies wishing to acquire foreign government instruments.

CHAPTER 3—INSURING THE STABILITY OF THE INTERNATIONAL FINANCIAL SYSTEM

Section 431—Private capital sources for developing nations

The section requires a study by the Treasury on the changes that must be made in the capital markets of the U.S., and in the regulation of private financial institutions which would assist in bringing about a permanent solution to the international debt crisis. The changes should be consistent with increased growth in debtor nations and increased stability to the U.S. financial system.

The study is to be done in conjunction with the Federal Reserve, the Comptroller of the Currency, in consultation with accountants, lawyers, bankers, and consultants with specialized knowledge of international finance, and representatives of the governments and central banks of Japan, West Germany, France, the United Kingdom, Italy, Canada and Switzerland.

The study will include analyses of the following:

1. any changes (statutory or regulatory) which would be appropriate to assist the growth of a secondary market in LDC debt;
2. possible payment of a portion of the debt in local currency;
3. the effect of debt relief on commercial bank stock valuation and stability of the financial system;
4. to what extent the availability of loan loss amortization will stimulate debt forgiveness by banks;
5. any changes in the tax laws which would be required to encourage banks to forgive LDC debt;
6. feasibility of establishing a national debt discount facility, and the sources of funds for capitalization and operation of such a facility;
7. what regulatory, tax and accounting measures are available in foreign countries to facilitate debt forgiveness;
8. how and if the Bank for International Settlements can play a role in resolving the international debt crisis;
9. how a secondary market for LDC debt can be expanded;
10. any other options available for increasing the use of domestic and international capital markets to provide capital for developing nations, and how the World Bank could implement such options;
11. an evaluation of the market for debt-equity swaps in major LDC debtors.

The section also directs the Secretary of the Treasury, along with Board of Governors of the Federal Reserve system and the Comptroller of the Currency, to issue a report to the Banking Committees of the House and the Senate less than 6 months after enactment on the advisability of implementing any of the proposals analyzed.

Section 432—Mobilization of private capital

The section directs the Secretary to instruct the U.S. executive directors of the World Bank and the IMF to initiate discussions with the executive directors of their respective banks and propose that the Bank and the Fund take steps to increase their roles as intermediaries in generating new capital and creating new capital instruments.

Section 433—More flexible procedures for rescheduling of debt service payments for less developed countries

Section 433 requires that the Federal Reserve and the Department of the Treasury offer banks with exposure to LDC debt options that will allow them to provide debt relief.

This process will be set in motion once a bank and the indebted country begin renegotiating or restructuring that country's debt service payments. During the negotiating process, a numerical target for debt relief will be established in dollar amounts. The target will continue to be determined through negotiations with the debtor country and the multilateral agencies. The bank would provide a prorated share of debt relief based on the size of its outstanding loans to the debtor country.

There are five specific options outlined in the section that are among those that the banks will be able to choose from. These include lending new money; allowing writing off and forgiving a portion of the principle; foregoing or reducing interest payments to a designated level; participating in debt-equity swaps; or combination of any of the options.

This plan would not mandate that a bank use any or all of the options listed; it merely requires that banks be notified of the availability of these options.

This section also includes a sense of the Congress that the Federal agencies that oversee and regulate the operations of depository institutions should seek to assure that those in institutions with substantial LDC loan portfolios establish adequate reserves against loans to heavily indebted LDCs.

CHAPTER 4—MULTILATERAL INVESTMENT GUARANTEE AGENCY

Section 436—Short title

This title is the Multilateral Investment Guarantee Agency Act.

Section 437—Acceptance of membership

This section would authorize the President to accept U.S. membership in MIGA.

Section 438—Governor and alternate Governor

MIGA would have the same officers as those of the World Bank.

Section 439—Applicability of Bretton Woods Agreements Act

Provisions and amendments of the Bretton Woods Agreements Act will apply to MIGA.

Section 440—Restrictions

Changes in the terms of U.S. participation can only be made subject to authorization in law.

Section 441—Federal Reserve banks as depositaries

Federal reserve banks shall act as a depository or its fiscal agent.

Section 442—Subscription of stock

This section authorizes the Secretary of the Treasury to subscribe to 20,519 shares of stock in MIGA. The cost of purchasing this stock will be $222,000,000, of which $22,000,000 is to be paid-in, another $22,000,000 available as a line of credit to MIGA, and the remainder, callable capital. An outlay cap of $22 million has been included for FY-88.

Section 443—Jurisdiction of U.S. courts and enforcement of arbitral awards.

U.S. district courts shall have jurisdiction in the case of any legal action against the agency.

Section 444—Force and effect of convention

The MIGA convention shall have full force and effect within the United States and its territories.

Section 445—Full faith and credit for arbitral awards; jurisdiction

CHAPTER 5—INTER-AMERICAN DEVELOPMENT BANK

Section 446—Merger of Inter-regional and ordinary capital

This section would permit the merger of capital accounts within the IDB.

Section 447—Waiver of country program limitations under new replenishment agreement under certain conditions

This provision would under certain conditions permit the waiver of country loan limitations as initially determined at the time of negotiation of IDB capital increase.

SUBTITLE C—COMPETITIVE TRADING PRACTICES

Section 451—Amendments to Trade and Development Enhancement Act of 1983

This section changes the unanimous consent requirement for decisions by the National Advisory Council on International Monetary Policies (NAC) to a simple majority requirement.

The section also adds the following new sections to the Act:

Section 648—Requires the President to submit a semiannual report to the Congress on the activities that are carried on under sections 644 and 645 of the bill. The report will include:

1. information on the applications used by Exim and A.I.D. for making assistance available under those sections;
2. information on how the applications are processed;
3. identification of which foreign governments the President is trying to influence by use of this assistance, with an explanation of why this assistance will influence those governments;
4. evidence that assistance under those sections are being used for the proper purpose;
5. any progress on negotiations to limit the use of tied aid;
6. extent to which tied aid is being used by Organization for Economic Cooperation and Development (OECD) members, the terms of those credits and the market sectors in which those credits are being used;
7. to what extent assistance under this act has been effective: a. in discouraging the use of tied aid; b. in protecting U.S. exporters from this type of competition.

Section 649—States that the authority under the Act is to be terminated 90 days after the President transmits to both House and Senate Banking Committees his certification that a majority of the NAC has determined that the U.S. has reached an agreement to end tied aid credit abuse with other OECD countries and that they are honoring said agreement.

This section also amends section 645(d) of the Trade and Development Enhancement Act of 1983 by striking out "allocated for Commodity Import Programs." This would permit A.I.D. to use all unearmarked Economic Support Fund (ESF) monies for tied aid credits.

PROVISIONS RELATING TO EXPORT-IMPORT BANK

Section 452—This section requires the Export-Import Bank of the United States to submit to the House and Senate Banking Committees within 90 days after enactment of this Act, a written report which contains an assessment of the effectiveness of recent program changes in increasing U.S. exports to developing countries; an identification of additional specific policy and program changes which would enable the Bank to increase the financing of U.S exports to developing countries and encourage greater private sector participation in such financing efforts; and an assessment of the viability and cost of the programs identified.

SUBTITLE D—COUNCIL ON INDUSTRIAL COMPETITIVENESS

Section 461—Short title

This section designates subtitle D as the "Council on Industrial Comnpetitiveness Act."

Section 462—Findings and purposes

This section describes Congressional findings that preeminence of the United States in international trade is threatened due to a failure to adapt to a highly competitive global marketplace and to regard the economic development of competing countries as a challenge and as an opportunity for economic growth. The failure to adapt has resulted in unnecessary plant closings, high unemployment, a deterioration in the quality of jobs available for America's workers, and a sharp decline in the level of exports of agricultural commodities. The decline in industrial competitiveness endangers that economic decline in industrial competitiveness endangers the economic stability of the nation and or ability to maintain the defense industrial base necessary for our national security. To be successful in the world arena, the Congress finds that the United States must address its erosion of comparative advantage in many areas including innovation, investment, and productivity—and that helping to support the competitivenes of the United States is a proper and necessary role for the Government.

Currently, the industrial policy of the United States is composed of a variety of Government programs, subsidies, and regulatory oversight, yet, often these functions are not coordinated. Though our economy benefits when business, labor, government, academia, and public interest groups work together cooperatively, there exists no high level forum for developing a concensus on economc policies.

United States' progress on the issue of competitiveness requires the recognition that the world is moving toward the creation of an integrated and interdependent economy in which the policies of one nation impact on other nations. To effectively manage such an economy requires an increase in multilateral solutions to issues such as trade, tax, investment, and the distribution of world markets an world production.

The Congress finds that it is imperative that Government, business, labor, academia, and public interest groups act together to develop and coordinate long-range strategies for helping to insure the industrial competitiveness of the United States by (1) developing long-range strategies for promoting international competitiveness of our industries, and (2) establishing a Council on Industrial Competitiveness.

Section 463—Council established

This section prescribes that an Advisory Committee to be known as the "Council on Industrial Competitiveness" is established in the Executive Office of the President.

Section 464—Duties of the Council

The Council is to develop and promote ideas in cooperation with the Secretary of Commerce and other appropriate Federal agencies to enhance the United States' productivity and international competitiveness and, upon the request of the President, review private sector requests for governmental assistance or relief. The Council shall also (1) work with appropriate Federal agencies to identify current and future trends in market opportunities for U.S. goods and services and to develop strategies to penetrate those markets, (2) collect and analyze relevant data from Federal agencies concerning economic trends and market opportunities, (3) prepare and publish reports containing Council recommendations, and (4) create forums of national leaders in business, labor, academia, public interest activities and Government to identify and address national economic problems and create a consensus in support of those recommendations. The Council shall also report to the President annually, provide recommendations to the Congress, the President, the Council on Economic Advisors, and Federal departments on issues concerning agricultural, business, and industrial strategies and evaluate governmental policies and business practices in terms of competitive impact.

Section 465—Members

The Council shall be composed of 16 members appointed by the President (after consideration of recommendations of the Speaker of the House and Majority Leader of the Senate)—four national leaders in agriculture, business, or industry, including at least one from the small business community; four national leaders in the labor community; four national leaders in academia; and four from heads of Federal departments or agencies and representatives of State or local governments.

Members shall be appointed within 60 days of enactment of this Act. A vacancy on the Council must be filled in the same manner in which the original appointment was made, and members may be removed by the President for malfeasance in office. Members shall serve terms which correspond with the terms of the President who appointed the member and may not serve more than two consecutive terms. Members appointed from the private sector shall be paid at an amount not to exceed the compensation paid at level II of the Executive Schedule prorated on a daily basis for each day spent in the work of the Council, and shall be paid actual travel expenses and per diem in lieu of subsistence expenses when away from the members usual place of residence. Members from the public sector shall serve without compensation, but while working for the Council shall be paid actual travel expenses and per diem in lieu of subsistence expenses while away from the member's usual place of business.

Nine members of the Council constitute a quorum except that fewer than nine may hold hearings if approved by two-thirds vote of the Council. The Council shall not commence duties until all Members have been appointed and qualified. The Council shall elect its Chairperson by a two-thirds vote of the Council and shall meet at the call of the Chair—but shall not meet less than six times during the calendar year. Except for meetings, no action establishing policy shall be taken by the Council unless approved by two-thirds of the Council.

An individual may not be appointed as a member of the Council if, within the one-year period ending on the date the appointment would be effective, the individual has acted as an agent or attorney for, or performed any other professional service for or on behalf of the government of a foreign country, any agency or instrumentality of the government of a foreign country, or any foreign political party. If an individual, after appointed to the Council, acts in a manner previously described, the individual shall cease to be a member of the Council at the time they act in that manner.

Additionally, no former member of the Council who was appointed from the public sector, Executive Director, or member of professional staff may, within one year of the termination of such service, act as an agent or attorney for, or perform any other professional service for or on behalf of, the government of a foreign country, any agency or instrumentality of the government of a foreign country, any corporation controlled by a foreign government, or any foreign political party in any particular matter that was actually pending within the area of responsibility of such member, Executive Director, or employee during the one-year period ending on the date of termination of such service or employment. Any person who violates this provision shall be subject to a civil penalty not to exceed the greater of $250,000 or the amount of compensation received for the prohibited conduct. The Attorney General may bring an action to recover a penalty in an appropriate U.S. District Court against the individual violating this section. The violation shall be established by a preponderance of evidence.

Section 466—Executive director and staff; exports and consultants

This section provides that the principal administrative officer of the Council shall be an Executive Director who shall be appointed by the Council and paid at a rate not to exceed the basic pay for level V of the Executive Schedule. The Executive Director shall serve full time, and within the Council's appropriation may appoint personnel, subject to Title 5, U.S. Code, who shall be paid according to chapter 51 and subchapter III of chapter 53 of Title 5 relating to classification and CS pay rates.

The Council may procure temporary and intermittent services under section 3109(b) of Title 5, USC, but at rates not to exceed the daily equivalent of the maximum annual rate of basic pay for GS-16 of the General Schedule. Further, upon request of the Council, the head of a Federal agency may detail on a reimbursable basis, personnel of the agency to the Council for assistance in carrying out its duties.

Section 467—Powers of the Council

The Council may hold hearings, sit and act at such times or places, take testimony and receive evidence as the Council considers appropriate.

If authorized by the Council, members and agents of the Council may take action the Council is authorized to take. The Council may secure from any department or agency of the U.S. necessary information to carry out its powers but shall not disclose that information to the public unless the department or agency is authorized to disclose that information pursuant to Federal laws. The Council may use the U.S. mails in the same manner and under the same conditions as other departments and agencies of the U.S. The Administrator of General Services shall provide to the Council, on a reimbursable basis, administrative support services the Council may request.

Section 468—Reports

The Council, within 180 days after appointment of members, shall transmit to both Houses of Congress and the President a report recommending changes in Federal policy to implement effective trade and competitive strategies and ways to more effectively coordinate Federal programs to assist U.S. exporters. The Council shall report annually to both Houses of Congress and the President: (1) the major agricultural, business, and industrial development priorities of the U.S.; (2) the policies needed to meet these priorities; and (3) a summary of existing Government policies affecting industries. The report shall contain a statement of findings and conclusions of the Council during the previous fiscal year, together with any recommendations for legislative or administrative actions the Council considers appropriate.

Section 469—Authorization of appropriations

For Fiscal Year 1988, an amount not to exceed $5,000,000 is authorized to be appropriated to the Council.

Section 470—Definitions

"Council" means the Council on Industrial Competitiveness. "Member" means a member of the Council on Industrial Competitiveness. "United States" means the several states, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, American Samoa, and any other territory or possession of the U.S.

Section 471—Review and coordination of trade negotiation capabilities

This section provides for an assessment of the adequacy of our current system of appointing and hiring personnel for trade negotiation positions in the U.S. Government. The Council shall evaluate the system for appointing U.S trade negotiators and filling other positions within the U.S. Government which are related to trade negotiations. The Council's study shall include: (1) Identification of positions within the U.S. Government including trade negotiations; (2) tenure of individuals holding positions; (3) salary level of individuals holding positions; (4) duration of types and levels of trade negotiations; (5) positions of employment and salary level for individuals immediately after leaving Government service in a trade negotiation position; (6) the percentage of turnovers in individuals in trade negotiation positions which are directly related to changes in Administration leadership; (7) professional advancement opportunities for U.S. trade negotiators in the U.S. Government; (8) recommendations on establishing a minimum tenure of service for individuals in positions in the U.S. Government that are related to or involve trade negotiations; (9) recommendations to tying promotions and salary to length of service; (10) recommendations on establishing a separate professional trade corps to strengthen capabilities of U.S. negotiators in long-term disputes; and (11) recommendations on the need to upgrade personnel in trade-related positions.

The Council shall submit a report to the President and each House of Congress within 180 days after initial members are appointed to the Council. The report shall contain the findings and conclusions of the Council and recommendations for legislation and administrative action.

Section 472—Review and coordination of Federal export promotion programs

To provide the most effective and efficient delivery of governmental assistance to U.S. exports of goods and services, the President shall direct the Secretary of Commerce and the U.S. Trade Representative to jointly conduct a comprehensive investigation of the export promotion program of the various Federal agencies and departments to better coordinate and enhance their effectiveness, and to report such findings to the Council not later than 90 days following the appointment of Council members. The Secretary of Commerce and the U.S. Trade Representative shall coordinate the administration of such export program promotion, coordinate the manner in which such programs are administered to eliminate duplication of effort and streamline the process pursuant to which such support or assistance is provided, and establish procedures for the timely dissemination of information concerning such programs and the nature of services offered under such programs to assist U.S. businesses, agricultural producers and industries to promote their exports and to achieve greater competitiveness in foreign markets.

Subtitle E—Export Trading Company Amendments

Section 476—Short title

Section 476 specifies the bill's short title to be, "Export Trading Company Amendments Act of 1987".

Section 477—Export Trading Company amendments

Subsection (a) of Section 477 retains the current statutory definition of export trading company (ETC), but adds language to the "principally" engaged in exporting definition. This language allows ETCs a two year grace period before commencement of the time period to determine whether it is "principally engaged in exporting". It provides for a determination period of not less than four consecutive years for purposes of measuring compliance.

This Subsection also allows ETC revenues derived from facilitating the provision of trade services to trade outside of the U.S. However, such revenues may only account for a maximum of half of all "export" revenues, for purposes of measuring compliance with the "principally engaged in exporting" test.

Subsection (b) of Section 477 prohibits the Federal Reserve Board from disapproving a proposed investment solely on the basis of a proposed ETC capital to equity ratio, unless the proposed annual average ratio is more than 15 to 1.

Subsection (c) of Section 477 prohibits the Federal Reserve Board (FRB) from issuing regulations restricting the dollar amount of inventory an ETC can maintain. However, it allows the FRB to impose dollar limits on a particular ETC's inventoried goods under certain conditions—if an ETC has been operating for a reasonable period of time, and if the FRB finds that inventory limits are necessary to protect the investor bank holding company from risks which are likely to have a materially adverse effect on the safety and soundness of a subsidiary bank of the bank holding company itself.

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

Section 32 of the Inter-American Development Bank Act

Sec. 32. The United States Governor of the Inter-American Development Bank is hereby authorized to agree to and to accept the amendments to the Articles of Agreement in the proposed resolution entitled "Merger of Inter-regional and Ordinary Capital Resources".

Trade and Development Enhancement Act of 1983

*   *   *   *   *   *   *

TITLE VI—EXPORT-IMPORT BANK ACT AMENDMENTS OF 1983

* * * * * * *

ESTABLISHMENT OF A TIED AID CREDIT PROGRAM IN THE AGENCY FOR INTERNATIONAL DEVELOPMENT

SEC. 645. (a) * * *

* * * * * * *

(d) The Administrator of the Agency for International Development may draw on Economic Support Funds [allocated for Commodity Import Programs] to finance a tied aid credit activity.

IMPLEMENTATION

SEC. 646. (a)(1) The National Advisory Council on International Monetary and Financial Policies shall coordinate the implementation of the tied aid credit programs authorized by sections 644 and 645.

(2) No financing may be approved under the tied aid credit programs authorized by section 644 or section 645 [without the unanimous consent of the members of the National Advisory Council on International Monetary and Financial Policies] *unless a majority of the members of the National Advisory Council on International Monetary and Financial Policies approve the financing.*

* * * * * * *

SEC. 648. REPORT TO CONGRESS.

The President shall transmit to the Congress, on a semiannual basis, a report setting forth the activities carried out under sections 644 and 645. Each such report shall include—

(1) information on applications used by the Export-Import Bank and the Agency for International Development for making assistance available under sections 644 and 645;

(2) information on the disposition of such applications;

(3) an identification of the foreign governments whose behavior the President is trying to influence by the use of such assistance, and an explanation of why the assistance involved is deemed likely to influence that behavior;

(4) evidence that clearly demonstrates that assistance under sections 644 and 645 has been used for the purposes of this Act;

(5) information on any progress that has been made in negotiations on agreements within the Organization for Economic Cooperation and Development to limit the use of tied aid credits;

(6) information on the extent to which tied aid credits are being used at the time of such report by major trading countries within such Organization, the terms of any such credits, and the market sectors with respect to which such credits are being used; and

(7) information on the extent to which assistance under this Act has been effective—

(A) in discouraging the use of tied aid credits for commercial purposes by other countries; and

(B) in helping to protect United States exporters from unfair and predacious official export competition.

SEC. 649. TERMINATION OF AUTHORITIES.

The authorities contained in this Act shall cease to be effective at the end of the 90-day period beginning on the date the President transmits to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate the President's certification that a majority of the members of the National Advisory Council on International and Monetary Financial Policies have determined that—

(1) the United States has reached an agreement with the governments of the other member countries of the Organization for Economic Cooperation and Development which ends abuse of tied aid credits in pursuit of national commercial benefits; and

(2) those governments are honoring the terms of that agreement.

* * * * * * *

SECTION 4 OF THE BANK HOLDING COMPANY ACT OF 1956

INTERESTS IN NONBANKING ORGANIZATIONS

SEC. 4. (a) * * *

* * * * * * *

(c) The prohibitions in this section shall not apply to any bank holding company which is (i) a labor, agricultural, or horticultural organization and which is exempt from taxation under section 501 of the Internal Revenue Code of 1954, or (ii) a company covered in 1970 more than 85 per centum of the voting stock of which was collectively owned on June 30, 1968, and continuously thereafter, directly or indirectly, by or for members of the same family, or their spouses, who are lineal descendants of common ancestors; and such prohibitions shall not, with respect to any other bank holding company, apply to—

(1) * * *

* * * * * * *

(14) shares of any company which is an export trading company whose acquisition (including each acquisition of shares) or formation by a bank holding company has not been disapproved by the Board pursuant to this paragraph, except that such investments, whether direct or indirect, in such shares shall not exceed 5 per centum of the bank holding company's consolidated capital and surplus.

(A)(i) * * *

* * * * * * *

(v) LEVERAGE.—The Board may not disapprove any proposed investment solely on the basis of the anticipated or proposed asset-to-equity ratio of the export trading company with respect to which such investment is proposed, unless the anticipated or proposed annual average asset-to-equity ratio is greater than 15-to-1.

[(v)] *(vi)* Within three days after a decision to disapprove an investment, the Board shall notify the bank holding company in writing of the disapproval and shall provide a written statement of the basis for the disapproval.

[(vi)] *(vii)* A proposed investment may be made prior to the expiration of the disapproval period if the Board issues written notice of its intent not to disapprove the investment.

* * * * * * *

(G) DETERMINATION OF APPLICABILITY OF CLASSIFICATION.—For purposes of determining whether an export trading company is operated principally for the purposes described in subparagraph (F)(i)—

(i) the operations of such company during the 2-year period beginning on the date such company commences operations shall not be taken into account in making any such determination;

(ii) not less than 4 consecutive years of operations of such company (not including any portion of the period referred to in clause (i)) shall be taken into account in making any such determination; and

(iii) fees derived from the facilitation, outside the United States, of trade services shall be treated as revenue derived from exporting or facilitating exports to the extent—

(I) the fees so derived are remitted to the United States; and

(II) the aggregate amount of such fees in any year does not exceed one-half the amount of revenue actually derived from export operations or the facilitation of export services.

(H) FACILITATION OF TRADE SERVICES.—For purposes of subparagraph (G)(iii), the term "facilitation of trade services" means arranging for, but not performing, any trade service which would be an export trade service (under subparagraph (F)(ii)) but for the fact that such service was not provided in order to facilitate the export of any good or service produced in the United States.

(I) INVENTORY.—

(i) NO GENERAL LIMITATION.—The Board may not prescribe by regulation any maximum dollar amount limitation on the value of goods which an export trading company may maintain in inventory at any time.

(ii) SPECIFIC LIMITATION BY ORDER.—Notwithstanding clause (i), the Board may issue an order establishing a maximum dollar amount limitation on the value of goods which a particular export trading company may maintain in inventory at any time (after such company has been operating for a reasonable period of time) if the Board finds that, under the facts and circumstances, such limitation is necessary to prevent risks that would affect the financial or managerial resources of an investor bank holding company to an

extent which would be likely to have a materially adverse effect on the safety and soundness of any subsidiary bank of such bank holding company.

* * * * * * *

ADDITIONAL VIEWS OF CONGRESSMAN DOUG BEREUTER TO TITLE IV OF H.R. 3

One important and positive element of this bill is the authorization and subscription of shares for U.S. membership in the Multilateral Investment Guarantee Agency (MIGA). MIGA will provide an additional means of promoting open and sound trade and investment regimes in the developing world. A valuable feature of MIGA is that it would give multilateral guarantees and multilateral scrutiny of the honoring of commitments by developing country governments.

By guaranteeing the transfer and convertibility of profits and liquidation of assets as well as risks of expropriation, war, civil unrest, and breach of contract by the host government, MIGA should facilitate trade opportunities abroad for U.S. businesses. Especially in the current atmosphere of exchange restrictions deriving from debt servicing difficulties, U.S. exports are being hindered. MIGA has the potential to guarantee such transactions as management and service contracts, licensing and franchising agreements, and lease agreements. Lease agreements, in particular, facilitate exports of billions of dollars of American equipment to developing countries. MIGA's guarantees of exchange convertibility will provide a new way to insure that these exports from the U.S. to developing countries can continue.

While there are potential risks and unanswered questions associated with the creation of the debt management facility outlined in the bill, the alternative, the Baker Plan, to date has not brought forth the expected support from commercial banks. Without additional resources, many developing countries have grave difficulties in maintaining economic health while servicing old debt. I believe that additional alternatives deserve exploration prior to having such exploration forced in haste by a major international financing crisis.

DOUG BEREUTER.

MINORITY DISSENTING VIEWS

A majority of the Minority is unable to support the provisions of H.R. 3 as considered by the Banking Committee on March 25th. Its proposals for the establishment of a "competitive exchange rate," a new international debt facility, and an industrial competitive council will be at the expense of the U.S. taxpayer and could well be destabilizing to the Administration's international economic policies.

In addition, the bill requires numerous studies and reports which will place an undue burden on the Treasury Department and other federal agencies.

We feel, the bill will do little to increase U.S. competitiveness abroad, could curtail foreign investment in this country, indefinitely delay any chances which LDC nations might have of getting access to worldwide credit markets, and might well have a dampening effect on the Administration's ability to implement effective international economic cooperation.

While the Competitive Exchange Rate Act of 1987, Subtitle A of the bill, is much improved over earlier versions of the bill which mandated automatic currency intervention and the convening of an international monetary conference, its narrow focus on exchange rates fails to take into account other economic policies which affect the U.S. trade position.

This section of the trade bill seeks to deal with the misalignment of the U.S. dollar and its fluctuations in international currency markets. We do not quarrel with this objective. However, we do question the Majority's proposed approach which we think will be counter-productive.

For several years the U.S. dollar was over-valued in the view of almost all observers, although opinions differed by how much. It thereby contributed to our trade deficit, burdened our export industries, and increased the price competitiveness of imports in domestic markets. Since March of 1985, however, the dollar exchange rate has declined significantly, to the point in fact where Secretary Baker and the other finance ministers at the Paris meeting of the Group of Six last month felt it had fallen far enough. Accordingly, they agreed to try stabilizing the dollar at the then existing rate by means of central bank intervention and coordinated macroeconomic policies. In fact, however, the dollar has fallen further and where it will bottom is still a matter of conjecture.

The preceding notwithstanding, the Majority's trade bill would mandate the Treasury Secretary to undertake initiatives to achieve stated policy objectives.

A basic flaw of the bill, in other words, is its excessive optimism regarding the extent to which exchange rates can be manipulated by joint central bank intervention and coordinated economic policies. While the Administration has been working in this direction, we question the appropriateness and good sense of codifying a policy into statute when it is not clear how effective it may turn out to be and which cannot accommodate modifications which may be indicated in the future.

Just central bank interventions, as we have seen during recent days, do not always prove effective. The coordination of public economic policy—particularly with major traders such as Japan and West Germany—has proven more difficult than anticipated.

We question also the wisdom of other features of this Section of Title IV. Its intent, clearly, is the achievement and maintenance of a set of exchange rates that would be helpful in improving the U.S. trade deficit. These objectives, however, presuppose that an ideal set of exchange rates—the bill calls it a "competitive" rate—can be ascertained. The bill defines the "competitive" exchange rate as one that is consistent with a "sustainable balance in the current account." This, however, raises as many questions as it answers, one of them being, what about persistent capital movements? The United States has during the past few years experienced a persistent inflow of foreign capital, part of which was invested in Treasury securities which helped finance our budgetary deficit. The mirror image of these capital inflows was the current account deficit. In targeting a "competitive" exchange rate for the dollar consistent with a (zero) balance in our current accounts, are the authors of the Majority bill prepared to do without capital inflows that help finance our federal budget and keep interest rates at moderate levels? One wonders whether they are aware of the fiscal implications of their legislative proposal.

However, assuming a less literal definition of the "competitive" exchange rate, what would the consequences be if the Treasury—as instructed by the bill—would attempt to specify, country-by-country, what the "competitive" exchange rates should be for purposes of comparing them with their respective market rates? The publication of such rate differentials, we believe, would be a certain prescription for speculation and more—rather than less—volatility in the relationships of the dollar with other currencies. If greater rate stability is sought, this is surely not the way to go about it.

We also observe that the Majority's stress on exchange rates in this Section is curiously at odds with the remaining Titles of the bill which stress improved "competitiveness" of our domestic industries as the key to the resolution of our trade deficit problem.

The proposed exchange rate reform will likely create new problems by codifying into law what should remain flexible policy. Its other flaws include unwarranted optimism about identifying appropriate exchange rates and about policy makers' success in managing them. Rather than stabilizing exchange rates, the proposed measures would increase their volatility and in the process politicize them.

Another troubling aspect to this legislation is its prohibition of certain primary dealers from continuing their operations (Section 428). The language of the bill would prohibit the continued designation of any person of a foreign country as a primary dealer in government debt instruments if this foreign country does not allow U.S. companies equal access to the government debt instruments market of that country.

As presently drafted this provision of the bill would decertify several foreign primary dealers, including the Harris Trust company which is owned by the Bank of Montreal. Contrary to the assertions of the author of the primary dealer amendment made during the markup of H.R. 3, Canada is not scheduled to allow either U.S. banks or securities firms "equal access" to that country's government securities market.

American banks in that country are totally excluded from the Canadian bond market of 2 years maturity or longer. The situation regarding American securities firms is more complicated. Several are already grandfathered into the market. Prospects are excellent that more firms will be allowed to operate in the Province of Ontario as of June 30th of this year. However, the Bank of Canada has made no plans and has no commitment to establish a timetable for the designation of any foreign securities firms or bank as a "primary distributor" which is the Canadian equivalent of our primary dealer status.

Thus, the 'Canadian' problem in the primary dealers' provision has not been adequately addressed. As a result of this legislative flaw, this provision in its present form should be amended on the House floor.

There is, however, another problem with the provision insofar as it would decertify several Japanese firms. In light of the very real prospects for a trade war between Japan and the United States and the attendant turmoil such a trade war could produce, and has produced, in our stock market and our market for government debt, it would be extremely unwise to enact a bill which has such an inflexible provision decertifying foreign-owned primary dealers in government debt instruments.

Subtitle B, "The Third World Debt Management Act," directs the Secretary of the Treasury to initiate negotiations aimed at establishing a facility for the purchase of developing country debt owed to commercial banks. It is not clear how the facility is to be funded. While it calls for a study on using the gold of the IMF and the liquid resources of the World Bank for this purpose, the facility could ultimately have substantial costs for the American treasury and taxpayer.

The proposal for managing the Third World financial crisis through partial relief of existing debt would probably undermine the ongoing internal efforts of the borrowing countries to achieve the needed structural reforms. Also, forgiveness of debt could have a negative effect on the willingness of the international financial community to provide new money and credit to heavily indebted borrowing countries.

We question the appropriateness of using public resources for purchasing private commercial bank debt. We are also concerned that those commercial banks which do sell their loan portfolios at a loss would be unlikely to provide further financing—even trade financing—to debtor nations. As a result, U.S. exports could be hurt, not helped, by enactment of this bill.

It should clearly be understood that there already exists a secondary market for LDC debt for those banks which wish to dispose of the debt owed them by sovereign borrowers. Although the secondary market is thin, and no more than an approximate guide to the value of outstanding debt portfolios, it does perform a valuable function in providing a degree of liquidity for banks that wish to adjust or to sell some of their debt holdings. It also provides paper for debt/equity swaps which play an increasing role in the resolution of the debt problem.

In other words, the proposed debt facility would replicate this presently private market in sovereign LDC debt on a grand scale. The commercial creditor banks would receive tax deductions for their losses which could run into several billion dollars, while the U.S. and other governments also would be asked to help bankroll this facility, although the precise method of funding is left conveniently vague.

Summarizing, this is still not the answer to the admittedly difficult problem of the developing countries' debt. We simply don't believe that there are any shortcuts or easy answers. The commercial banks, we believe, will have to contribute more to the solution of the international debt problem than what the Majority has suggested in this bill.

Originally the Council on Industrial Competitiveness was envisioned to be a central planning and coordinating body which would have full control of, and influence over, the trade policy and industrial planning of this country. While we appreciate the attempts that have been made to reform this original proposal to make the Council more palatable to the Minority point of view, regrettably we must still oppose the bill as it was reported from full committee on March 25th.

The Council as it now exists would function as an advisory board to the President, and would operate within the White House in much the same manner as the Council of Economic Advisers. In this form, we have objections on several fronts.

First, the Council would be a superfluous and unnecessary institution, in many instances duplicative of functions already carried out by other agencies, and overly obtrusive by its general nature. As was pointed out in each hearing on this matter, the Council is being set up to conduct data-gathering and analysis as a part of its function as an advisory panel. Through bodies such as the Departments of Treasury, State, and Agriculture, the office of the U.S.T.R., and quasi-governmental groups like the Industrial Advisory Council, we already collect every conceivable iota of trade data imaginable. It seems to the Minority that if the objective of the Council is to synthesize and coordinate the trade and export-promotion efforts of the federal government, then it should not be empowered to go out on its own duplicating existing data-gathering functions.

Second, establishing a Council on Industrial Competitiveness will not improve the climate for American industry. Instead, it is a large step down the road to centralized governmental planning. In addition to the Minority's view that such a step is anathema to the fundamental precepts upon which our economy and social structure is based, there is ample evidence that centrally planned economies are less efficient and less competitive than free market economies. If we pursue this course, real concern arises that the government will inevitably emerge as the dominant force in industrial planning. Politicization of the process would inevitably occur, and decisions would no longer be made based upon economic objectivity, but would grow increasingly entangled in special-interest and bureaucratic wrangling.

The dangers of such politicization occurring are even greater with the Council having the authority to predicate the receipt of governmental assistance by an industry or business upon its giving certain guarantees that pre-selected activities must necessarily be conducted. Such "conditionality" authority seems to be exactly the type of activity set forth in the preceding paragraph which can prove to be nothing but counter-productive in the long run.

Third, although the costs of the Council have admittedly been trimmed significantly from the original $25 million proposed last year, we still are facing the creation of a new extension of government at a cost of $5 million in an extraordinarily tight budgetary period. Additionally, the cost of the Council as forwarded from full committee bears little or no relation to its supposed duties. As has been noted in markup, the existing governmental body most closely resembling this new creation is the Council of Economic Advisers. This body operates with over 30 full-time staff members at a cost of less than $3 million annually. It seems unnecessarily callous to use taxpayer money on a board which can by its very nature do little but damage.

The notion that this Council where government, business, labor, and academia can cull through the clouds of micro-economic policy thesis to rationally come up with a winning master plan for the economy is not only an illusion, but a very dangerous one as well.

The Council on Industrial Competitiveness is a well-intended but tragically misguided attempt to solve our current competitiveness problems. It is the view of the Minority that what we will have on our hands as a result of this legislation is a multi-million dollar expense account which will do little good and will create an additional governmental drain on an already overstretched economy.

In summary, it is our view that the bill cannot deliver on the promises of its authors: micromanaging our exchange rate policy during this period of turmoil on the exchange markets will not help the Administration's international economic coordination efforts; establishing an international debt facility might make it harder, not easier, for developing countries to get additional new credits; decertifying foreign primary dealers is unfair and very unsound policy during the present state of trade relations; setting up a competitiveness Council is a duplication of existing government efforts and, as such, a waste of taxpayer resources.

CHALMERS P. WYLIE.
NORMAN D. SHUMWAY.
STAN PARRIS.
BILL MCCOLLUM.
MARGE ROUKEMA.
DAVID DREIER.
JOHN HILER.
STEVE BARTLETT.
TOBY ROTH.
ALFRED A. MCCANDLESS.
PAT SWINDALL.
PATRICIA SAIKI.
JIM BUNNING.

ADDITIONAL MINORITY DISSENTING VIEWS OF HON. GEORGE C. WORTLEY

I endorse the overall content of the dissenting views of the minority. Provisions in this bill to establish rigid exchange rates, a new international debt facility and an industrial competitive council are indeed ill-conceived, counterproductive, duplicative and a sizeable threat to the U.S. taxpayer.

However, I cannot agree with the criticism leveled by my minority colleagues at the provision in the bill (Section 428) that requires other countries to grant us equal access to their financial markets. Demanding reciprocity from our trading partners is far from protectionism. Rather, it involves a basic element of fairness. If other countries continually exclude our financial firms from participation in their financial markets, why should we not likewise restrict their firms in our country?

Last year, I cosigned a letter with other members of Congress to the Federal Reserve Board urging that Japanese financial firms be denied primary dealer status until over financial firms were offered an opportunity to compete on similar terms in the Japanese financial markets. Although this pressure from members of Congress has been helpful in certain respects, a great deal of progress remains to be made in opening up the Japanese markets and I believe that Section 428 of the legislation is a correct and overdue approach to this problem.

GEORGE C. WORTLEY.

VIEWS ON BANKING PROVISIONS OF H.R. 3

The banking provisions marked up as part of H.R. 3 provide nothing but a band aid approach to the problems of third world debt and exchange rates. It is a bill that presupposes its findings and conclusions months before any testimony takes place on the issue. Moreover, the framers, after presupporting these findings, forgot to place testimony in the findings and conclusions to support them.

It is a bill that addresses the need for a flexible exchange rate with rigidty.

It is a bill that looks at the solutions to the third world debt in the nature of a taxpayer bailout.

First, the findings. While the trade deficit with Africa and Latin America are important, it is not of such major proportions, with respect to the rest of the world, as the bill would have you believe. With respect to the rest of the trade deficit, these portions are relatively small. This bill would have you presuppose that for every $1 of debt relief, you will have a corresponding $1 reduction in trade deficit. We all know that this is not the case. Until we improve competitiveness, a large portion of that $1 will go overseas.

Secondly, this bill imposes upon the Executive Branch rigid proposals with respect to the exchange rate. This is extremely dangerous. The market must have flexibility to work. Goals of Exchange rates, as H.R. 3 requires, are counterproductive. They merely intensify the currency volatility that Congress seeks to reduce by setting the ground for other countries to test our resolve.

Finally, and standing on its own as a reason to oppose, this bill establishes an International Debt Management Authority. This proposed facility amounts to a clear bailout of the commercial banks by the U.S. taxpayer.

When Congress bails out the businessmen of Brazil before the farmers of Owen County, Kentucky, we have our priorities way out of line.

JIM BUNNING.

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