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Department of the Treasury

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
JS-1972

Joint Statement
16th Session of the U.S.-China Joint Economic Committee
Washington, DC, September 30, 2004

At the invitation of U.S. Treasury Secretary John W. Snow, Chinese Finance Minister Jin Renqing led an official delegation to the United States to co-chair the 16th session of the China-U.S. Joint Economic Committee (JEC), a forum first held in 1980, on September 30, 2004. U.S. Federal Reserve Board Chairman Alan Greenspan, People's Bank of China Governor Zhou Xiaochuan, and China Banking Regulatory Commission Chairman Liu Mingkang also participated in the meeting. Both sides noted the importance of the ongoing constructive and substantive high-level dialogue between the two countries involving key economic policymaking agencies on economic and financial issues. The two sides discussed a range of topics, including macroeconomic policy, financial sector issues, and efforts to combat terrorist financing and money laundering.

The two sides discussed the global economic situation and the outlook for their two economies. They noted that strong economic performance in both the United States and China contributed to the fastest rate of growth of the world economy in two decades. They noted with satisfaction the continued favorable outlook for 2005, notwithstanding the risks to the outlook, including those associated with high oil prices. Participants discussed monetary, fiscal, and exchange rate policies to support continued strong growth in both economies. They noted the policy measures taken in China to assure sustained and stable growth. The Chinese affirmed that they would continue to implement market-oriented reforms to promote sustainable, long-term economic growth in China. U.S. officials described the strong U.S. recovery brought about by timely fiscal and monetary policy measures. The budget deficit in 2004 is now projected to be well below earlier forecasts. The U.S. side confirmed the Administration's goal to cut the deficit by half within five years. The U.S. side explained that strong growth and favorable US investment opportunities have led to an expansion of the US current account deficit, but these pressures should diminish as international growth becomes more balanced and widespread. Both sides emphasized the importance of the Doha Round of multilateral trade negotiations, and promised their full effort to bring the Round to a successful conclusion.

Participants underscored the importance of healthy, competitive, and efficient financial markets in assuring that their economies achieve their full growth potential. Chinese participants described steps being undertaken to strengthen the banking system and to develop domestic capital markets, including recent steps in capital market reform. China reiterated its commitment to further liberalization and opening of its financial services sector. The Chinese side reaffirmed China's commitment to further advance reform and to push ahead firmly and steadily to a market-based flexible exchange rate, and described the steps the Chinese government has taken to create conditions to establish a more flexible exchange rate. The U.S. side expressed support for continued efforts by the Chinese government to bring about this goal as rapidly as possible. Both sides acknowledged the value of ongoing bilateral discussions on these issues, including the technical cooperation program that had been established as a means to accelerate reforms in the financial market and currency regime.

Both sides pledged to continue their cooperation to counter the financing of

terrorism and money laundering on a global basis. Both sides noted the important efforts being made through the Financial Action Task Force (FATF). The United States welcomed China's intent to participate in the inaugural meeting of the Eurasian FATF-style regional body on money laundering in October. China affirmed its willingness to be actively involved in an anti-money laundering and anti-terrorist financing regional body and to take the necessary steps to obtain full membership in the FATF. The United States strongly supports China's involvement in anti-money laundering and anti-terrorist financing activities, and its steps to obtain full membership in the FATF.

The two sides discussed U.S. voting policies on MDB loans to China. The U.S. side noted China's view that the United States should support the full range of Chinese MDB projects.

The Chinese side expressed its intention to join the Inter-American Development Bank (IADB), and reiterated China's willingness to make a greater contribution to the cause of poverty reduction in Latin America and the world at large. The United States supports China's endeavor to join the IADB.

Participation on the U.S. side included representatives from the Treasury, Federal Reserve Board, Council of Economic Advisers, Office of the Comptroller of the Currency, Commodity Futures Trading Commission, Securities and Exchange Commission, and the Department of State.

The Chinese delegation included the Ministry of Finance, People's Bank of China, China Banking Regulatory Commission, Ministry of Foreign Affairs, National Development and Reform Commission, and China Securities Regulatory Commission.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 1, 2004
JS-1973

**Treasury Announces MOU to Strengthen BSA Compliance
Enhanced Info Sharing, Denying Criminals Access to the U.S.Financial System**

The U.S. Department of the Treasury today announced a Memorandum of Understanding (MOU) setting forth information sharing procedures between the Treasury's Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators. Parties to the agreement include: the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, FinCEN, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

"This MOU marks another step in strengthening *Bank Secrecy Act* compliance and protecting the U.S. financial system from corruption by terrorists and other criminals," said Stuart Levey, Treasury's Under Secretary for the Office of Terrorism and Financial Intelligence (TFI).

"The enhanced collaboration will help FinCEN better administer the BSA while simultaneously assisting the regulators to better fulfill their roles as banking organization supervisors," said Levey.

"Today's announcement is the result of excellent teamwork between the regulators and Treasury and noteworthy leadership by the Senate Banking Committee and the House Financial Services Committee," Levey concluded.

REPORTS

- FinCEN-Banking Regulators MOU

MEMORANDUM OF UNDERSTANDING

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
U.S. Department of the Treasury, Financial Crimes Enforcement Network
U.S. Department of the Treasury, Office of the Comptroller of the Currency
U.S. Department of the Treasury, Office of Thrift Supervision

I. Background

A. Purpose.

This Memorandum of Understanding ("MOU") sets forth procedures for the exchange of certain information among the Board of Governors of the Federal Reserve System (the "Board"), the Federal Deposit Insurance Corporation (the "FDIC"), the National Credit Union Administration (the "NCUA"), the Office of the Comptroller of the Currency (the "OCC"), the Office of Thrift Supervision (the "OTS") (collectively, the Federal Banking Agencies ("FBAs")), and the Financial Crimes Enforcement Network ("FinCEN"), a bureau within the U.S. Department of the Treasury (collectively, the "Agencies").

Information to be exchanged under this MOU includes information about FinCEN's administration of the Bank Secrecy Act ("BSA"), Titles I and II of Pub. L. 91-508, as amended, codified at 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959, and 31 U.S.C. §§ 5311-5332; information relating to the FBAs' policies and procedures for examination of BSA compliance; significant BSA compliance issues at banking organizations supervised by the FBAs; and analytical data based on or derived from information provided by the FBAs.

Exchanges of information pursuant to the terms of this MOU are intended by the Agencies to help FinCEN in fulfilling its role as administrator of the BSA and to assist the FBAs in fulfilling their role as banking organization supervisors. The Agencies intend for this MOU to further the purpose of the BSA by better ensuring compliance in the filing of reports and keeping of records that "have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings, or in the conduct of intelligence or counterintelligence activities, including analysis, to protect against international terrorism."[1] Through this MOU, the Agencies intend to improve and enhance the level of interagency cooperation in the area of BSA examination and compliance. From the standpoint of policy, examination, and enforcement, this MOU will enable the Agencies to maximize their resources in discharging their statutory obligations. Ultimately, the collective goal of the Agencies is to enhance communication and coordination to help financial institutions identify, deter and interdict terrorist financing and money laundering.

Finally, by the effective use of the information exchanged under the provisions of this MOU, the Agencies will also seek to enhance the level of assistance and analysis that can be provided to the banking industry and to law enforcement in the area of BSA compliance.

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[1] 31 U.S.C. § 5311.

B. Jurisdiction.

Each FBA has plenary examination and enforcement authority for the financial condition, safe and sound operation, and compliance with laws and regulations of the banking organizations it supervises.

Under delegated authority from the Secretary of the Treasury, FinCEN is the administrator of the BSA.[2] FinCEN has the authority under 31 U.S.C. § 5318(a)(3) to examine financial institutions for compliance with the BSA and regulations promulgated under the BSA at 31 C.F.R. Part 103, as well as to take enforcement actions for violations of the BSA and the implementing regulations under 31 U.S.C. §§ 5320-23. The Secretary has delegated BSA examination authority, but not enforcement authority, to each FBA with respect to banking organizations supervised by that FBA. The FBAs have separate authority pursuant to 12 U.S.C. §§ 1786 and 1818 to ensure that banking organizations comply with all laws and regulations, including the BSA. FinCEN's regulations specify that each agency that performs FinCEN's delegated examination authority shall make periodic reports to FinCEN.[3]

C. Assessment of MOU Operation.

The Agencies shall meet, no less often than annually, to discuss the operation of the MOU and to identify any issues or adjustments that may be required. During such meetings, FinCEN will provide an update on how the information provided by the FBAs under this MOU has been used or applied by FinCEN. The Agencies will also evaluate the effectiveness of the information sharing in meeting the goals outlined above.

II. Provision of Information to FinCEN by the FBAs

A. Annual Report. Each FBA shall provide the Director of FinCEN or the Director's designee with the following information on an annual basis by October 1 of each year. For the first such report, each FBA shall provide the information by November 15, 2004. Each FBA will provide a summary of its BSA examination program that includes:

1) Number of financial institutions the FBA examines for BSA compliance as of the date of the report;

2) Description of the FBA's BSA examination cycle(s);

3) Description of criteria used for determining timing and scope of BSA examinations;

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[2] *See* Treasury Order 108-01, dated September 26, 2002. The Secretary is authorized to delegate such responsibilities to FinCEN pursuant to 31 U.S.C. § 310(b)(2)(I) and (J).

[3] 31 C.F.R. § 103.56(e). While 31 C.F.R. § 103.56 refers specifically to the Assistant Secretary (Enforcement), under Section 8(c) of Treasury Order 108-01, dated September 26, 2002, the term "Assistant Secretary (Enforcement)" as used in the regulations, rules, instructions and forms issued or adopted for the administration and enforcement of the BSA, shall be held to mean the Director of FinCEN.

4) Description of BSA examination staffing and resources, including, if available, the number of full time equivalent employees devoted to BSA compliance;

5) Description of BSA training programs provided to examiners; and

6) Description of the extent to which the FBA coordinates with and relies on State banking regulatory agencies to conduct BSA examinations. Specific agreements with State examination agencies need not be provided, but will be available to FinCEN upon request.

B. Program Documents. To the extent FinCEN does not already have them, each FBA will provide copies of written program documents pertaining to BSA examination, or amendments thereto, when they become available. Program documents include:

1) BSA examination workprogram documents, including core or basic procedures, expanded procedures, procedures for areas to receive special scrutiny, and any other written procedures pertaining to BSA examinations;

2) Written guidance pertaining to BSA examinations, including relevant sections from manuals of examination policies, handbooks, policy statements, and any other written directives that represent the current examination policy of the FBA; and

3) Relevant sections from written instructions for preparing BSA-related comments and citing BSA violations in Reports of Examination.

C. Quarterly Reports. Within 45 days after the end of each calendar quarter, each FBA shall provide to FinCEN the following aggregate information:

1) Number of BSA examinations conducted[4] within the agency's established BSA examination cycle, including examinations conducted by the FBA jointly with a State banking agency;

2) Number of BSA examinations conducted by a State banking agency and reviewed by the FBA under an established joint or alternate examination program where the examination is not conducted by the FBA jointly with a State banking agency;

[4] For purposes of this MOU, an examination has been "conducted" once a final Report of Examination is issued to the subject financial institution, or once there is an interim written communication to the financial institution analogous to the issuance of a final Report of Examination.

3) Number of BSA examinations or visitations conducted outside the agency's established BSA examination cycle;

4) Number of banking organizations cited for BSA violations under either Title 12 or Title 31 of the United States Code;

5) Number and type of BSA violations cited under either Title 12 or Title 31 of the United States Code;

6) Number of enforcement actions by category taken to address BSA compliance under either Title 12 or Title 31 of the United States Code;

7) Number of terminated enforcement actions by category that addressed BSA compliance under either Title 12 or Title 31 of the United States Code; and

8) If available, list of banking organizations instructed to request currency transaction report backfiling determinations.

D. Special BSA Examination Project Information. Prior to a FBA conducting any special BSA examination initiative, the FBA shall notify FinCEN and provide FinCEN with written information regarding the special BSA examination initiative. Written information to be provided to FinCEN shall include, but is not limited to, a description of the scope of the special BSA examination initiative and the procedures and criteria used by the FBA to determine the scope. For purposes of this MOU, a "special BSA examination initiative" is defined as a special initiative designed to address identified or emerging risks on a national or regional basis. It also includes examinations conducted because of, or to address, serious anti-money laundering issues that could have a national systemic impact on the banking industry. Nothing in this paragraph shall affect the exercise of a FBA's examination authority with respect to institutions under its supervision.

E. Provision of Information Concerning Significant BSA Violations or Deficiencies. As set forth below, the FBAs will promptly notify FinCEN of significant BSA violations or deficiencies. For purposes of this MOU, a "significant BSA violation or deficiency" includes: a systemic or pervasive BSA compliance program deficiency; systemic or pervasive BSA reporting or recordkeeping violations; or a situation where a banking organization fails to respond to supervisory warnings concerning BSA compliance program deficiencies or systemic or pervasive recordkeeping or reporting violations, or continues a history of program, or systemic or pervasive recordkeeping or reporting deficiencies, even when such deficiencies or violations are dissimilar to those cited in prior Report(s) of Examination or supervisory correspondence. A significant BSA violation or deficiency also includes a non-technical, one-time BSA violation that demonstrates willful or reckless disregard for the requirements of the BSA, or that creates a substantial risk of money laundering or the financing of terrorism within the institution.

Each FBA shall provide FinCEN with information as follows:

1) When a FBA discovers a significant BSA violation or deficiency, the FBA will notify FinCEN as soon as practicable, but no later than 30 days after the FBA cites the organization, in a written communication, for a significant BSA violation or deficiency.

2) As soon as practicable, but no later than 30 days after completion, the FBA will provide to FinCEN portions of the Report(s) of Examination and other written materials relating to the significant BSA violation or deficiency.

3) To the extent that FinCEN is not already a party to the action, the FBA will notify FinCEN of public enforcement actions involving a significant BSA violation or deficiency as soon as practicable, but no later than 30 days after the FBA has decided to pursue the action. In all cases, the notification must occur before such action is made public. For all other enforcement actions involving a significant BSA violation or deficiency, the FBA will notify FinCEN of the action as soon as practicable, but no later than 30 days after taking the action.

4) Follow-up Information on Enforcement Actions. If an enforcement action involving a significant BSA violation or deficiency requires the banking organization subject to the action to take corrective measures, develop and implement an action plan, or submit progress reports to the FBA, the FBA will provide FinCEN with a quarterly assessment of those banking organizations that have failed to comply with such requirements. The FBA will provide to FinCEN copies of any relevant Report(s) of Examination related to such banking organizations if not otherwise provided. Copies of the Report(s) of Examination will be provided as soon as practicable, but not later than 30 days after completion. Upon request by FinCEN, the FBA will provide reports submitted by the banking organization in response to an enforcement action, as well as Report(s) of Examination related to follow up on actions involving a significant BSA violation or deficiency.

5) Resolution of Actions Involving a Significant BSA Violation or Deficiency. To the extent not otherwise known to FinCEN, the FBAs will notify FinCEN of the resolution of any action involving a significant BSA violation or deficiency as soon as practicable, but no later than 30 days after the resolution of the action, and provide any material relevant to the resolution. For purposes of this MOU, resolution is defined as termination of an action, or the issuance of a subsequent action.

6) Report(s) of Examination, Workpapers, and Supporting Documentation. Portions of the Report(s) of Examination relating to BSA examinations that are not provided under II.E.1) through 5) shall be available to FinCEN as soon as practicable upon FinCEN's written request, but no later than 15 days after such request. Workpapers and supporting documentation relating to BSA

examinations shall be available to FinCEN as soon as practicable upon FinCEN's written request, but no later than 45 days after such request.

F. Format for Information. The format for providing information to FinCEN may vary among the FBAs. Each FBA shall provide information under this MOU in a format that is mutually acceptable to FinCEN and the FBA. Where available, information provided to FinCEN under this MOU shall be provided in electronic format.

III. Provision of Information to the FBAs by FinCEN

A. Quarterly Reports. Within 75 days of the end of each calendar quarter, FinCEN shall provide to the FBAs a compilation that summarizes by FBA all the data provided to FinCEN by the FBAs for the previous calendar quarter under paragraph II.C of this MOU. Additionally, FinCEN will provide each FBA a report identifying those banking organizations subject to the FBA's supervision against which FinCEN is considering pursuing civil enforcement remedies under the BSA.

B. FinCEN Enforcement Actions.

1) When FinCEN learns of a significant BSA deficiency or violation within a banking organization pursuant to paragraph II.E. of this MOU, FinCEN will notify the FBA with supervisory authority over the banking organization whenever FinCEN determines that the imposition of civil enforcement remedies under the BSA may be warranted. Notification from FinCEN shall be made as soon as practicable, but no later than 30 days after the determination, and in any event before taking any public enforcement action.

2) FinCEN will notify a banking organization's FBA prior to taking an enforcement action against any banking organization.

3) A copy of correspondence relating to a pending or possible enforcement action sent by FinCEN to a banking organization shall be sent to the FBA that supervises such banking organization. Copies of correspondence received by FinCEN from a banking organization relating to a pending or possible enforcement action shall be forwarded to the FBA that supervises such banking organization to the extent the FBA has not received a copy.

C. FinCEN Analytical Products. The information provided by the FBAs pursuant to this MOU will further assist FinCEN, alone and in conjunction with the FBAs, in developing a variety of analytical products that identify common BSA compliance deficiencies, patterns and trends in BSA compliance, developments in money laundering and terrorist financing, and trends and best practices in BSA examination. Such products will also focus on assisting the banking organizations and other financial institutions in meeting their BSA compliance obligations. Accordingly, FinCEN will provide the FBAs, and, as appropriate, the industry, and the public with such analytical products to enhance the overall effectiveness of the Agencies' administration of the BSA.

D. Assistance in Identifying BSA Compliance Deficiencies within Banking Organizations. Using information provided pursuant to this MOU, as well as BSA data and other information, FinCEN will provide support to the FBAs in helping to identify banking organizations with possible BSA compliance deficiencies for the purpose of assisting the FBAs in utilizing their examination resources.

E. Public Reports by FinCEN. In the event that information (other than confidential supervisory information, which is subject to the restrictions in Section IV of this MOU) provided by the FBAs is included in any documents that are made public or disclosed to any Congressional entity, such documents shall be provided to the FBAs before they are released by FinCEN with as much notice as possible.

IV. Restrictions on Disclosure and Use of Confidential Supervisory Information Provided to FinCEN by FBAs

A. 1) Each FBA retains ownership of all information provided to FinCEN under this MOU. All confidential supervisory information provided by an FBA remains subject to that FBA's regulations governing the disclosure of confidential supervisory information. FinCEN will use information provided by the FBA under this MOU in accordance with the restrictions applicable to information shared by each FBA under that FBA's regulations.[5] Except as provided in IV.A.2, FinCEN will make no public use of confidential supervisory information provided by an FBA under this MOU without the prior written approval of the FBA.

2) Confidential supervisory information provided by an FBA under this MOU may be used by FinCEN in investigative proceedings and, upon notice to the FBA, FinCEN may base factual findings in its enforcement orders on factual information it obtains as a result of its review of confidential supervisory information.

3) FinCEN will establish and maintain such safeguards as are necessary and appropriate to protect the confidentiality of the information which is provided under this MOU and information derived therefrom.

4) FinCEN will notify the applicable FBA in writing of any legally enforceable demand for information provided by a FBA under this MOU, prior to complying with the demand. FinCEN will assert all such legal exemptions or privileges on the FBA's behalf as the FBA may request. Unless subject to a court order or other compulsory process, FinCEN may not grant any demand or request for the information without prior written notice to, and approval of, the FBA.

5) Each FBA expressly reserves all evidentiary privileges and immunities applicable to any information provided to FinCEN under this MOU.

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[5] The applicable regulations are found at: 12 C.F.R. Part 261 (Board); 12 C.F.R. Part 4 (OCC) ; 12 C.F.R. Part 309 (FDIC); 12 C.F.R. § 510.5 (OTS); and 12 C.F.R. Part 792 (NCUA).

B. Confidentiality Restrictions of State Financial Institution Supervisory Agencies. Disclosure to FinCEN of confidential supervisory information that is jointly held by a FBA and a state financial institution supervisory agency shall be subject to the state financial institution supervisory agency's approval. The Agencies shall use their best efforts to obtain the prospective approval of state financial institution supervisory agencies as necessary for all disclosures to FinCEN required under this MOU.

V. Restrictions on Disclosure and Use of Information Provided by FinCEN to FBAs

FinCEN analytic products typically incorporate information obtained from BSA reports, and may also be based on information from other sensitive sources, such as law enforcement. The FBAs agree that, unless advised in writing by FinCEN to the contrary, FinCEN analytic products received under this MOU shall not be publicly disclosed, nor disseminated beyond the recipient agency, without written authorization from FinCEN.

VI. Civil Enforcement

No provision of this MOU is intended to affect the Agencies' respective enforcement authority.

VII. Term of MOU

This MOU is effective upon signature and will remain in effect until amended, replaced or terminated by signed, mutual agreement of the Agencies.

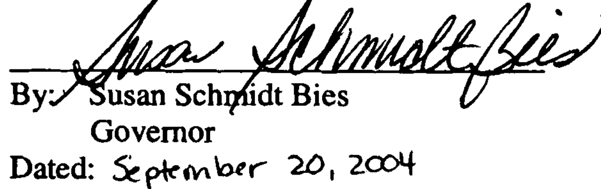
The Agencies agree that amendments to the format and delivery of information required by this MOU may be done by the mutual agreement of staff of the Agencies.

This MOU may be executed in counterparts.

[REST OF PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, each of the parties hereto has caused this MOU to be executed by its duly authorized officer on the date indicated below.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



By: Susan Schmidt Bies
Governor
Dated: September 20, 2004

FINANCIAL CRIMES ENFORCEMENT NETWORK

By: William J. Fox
Director
Dated:

FEDERAL DEPOSIT INSURANCE CORPORATION

By: Donald E. Powell
Chairman
Dated:

OFFICE OF THE COMPTROLLER OF THE CURRENCY

By: John D. Hawke Jr.
Comptroller of the Currency
Dated:

NATIONAL CREDIT UNION ADMINISTRATION

By: JoAnn M. Johnson
Chairman
Dated:

OFFICE OF THRIFT SUPERVISION

By: James E. Gilleran
Director
Dated:

IN WITNESS WHEREOF, each of the parties hereto has caused this MOU to be executed by its duly authorized officer on the date indicated below.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

By: Susan Schmidt Bies
Governor
Dated:

FINANCIAL CRIMES ENFORCEMENT NETWORK

By: William J. Fox
Director
Dated:

FEDERAL DEPOSIT INSURANCE CORPORATION

By: Donald E. Powell
Chairman
Dated: Sept. 21, 2004

OFFICE OF THE COMPTROLLER OF THE CURRENCY

By: John D. Hawke Jr.
Comptroller of the Currency
Dated:

NATIONAL CREDIT UNION ADMINISTRATION

By: JoAnn M. Johnson
Chairman
Dated:

OFFICE OF THRIFT SUPERVISION

By: James E. Gilleran
Director
Dated:

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

By: Susan Schmidt Bies
Governor
Dated:

FEDERAL DEPOSIT INSURANCE CORPORATION

By: Donald E. Powell
Chairman
Dated:

NATIONAL CREDIT UNION ADMINISTRATION

JoAnn M. Johnson

By: JoAnn M. Johnson
Chairman
Dated: 9-22-04

FINANCIAL CRIMES ENFORCEMENT NETWORK

By: William J. Fox
Director
Dated:

OFFICE OF THE COMPTROLLER OF THE CURRENCY

By: John D. Hawke Jr.
Comptroller of the Currency
Dated:

OFFICE OF THRIFT SUPERVISION

By: James E. Gilleran
Director
Dated:

IN WITNESS WHEREOF, each of the parties hereto has caused this MOU to be executed by its duly authorized officer on the date indicated below.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

By: Susan Schmidt Bies
Governor
Dated:

FINANCIAL CRIMES ENFORCEMENT NETWORK

By: William J. Fox
Director
Dated:

FEDERAL DEPOSIT INSURANCE CORPORATION

By: Donald E. Powell
Chairman
Dated:

OFFICE OF THE COMPTROLLER OF THE CURRENCY

By: John D. Hawke, Jr.
Comptroller of the Currency
Dated:

NATIONAL CREDIT UNION ADMINISTRATION

By: JoAnn M. Johnson
Chairman
Dated:

OFFICE OF THRIFT SUPERVISION

By: James E. Gilleran
Director
Dated:

IN WITNESS WHEREOF, each of the parties hereto has caused this MOU to be executed by its duly authorized officer on the date indicated below.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

By: Susan Schmidt Bies
Governor
Dated:

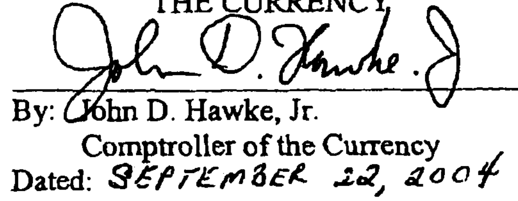
FINANCIAL CRIMES ENFORCEMENT NETWORK

By: William J. Fox
Director
Dated:

FEDERAL DEPOSIT INSURANCE CORPORATION

By: Donald E. Powell
Chairman
Dated:

OFFICE OF THE COMPTROLLER OF THE CURRENCY



By: John D. Hawke, Jr.
Comptroller of the Currency
Dated: SEPTEMBER 22, 2004

NATIONAL CREDIT UNION ADMINISTRATION

By: JoAnn M. Johnson
Chairman
Dated:

OFFICE OF THRIFT SUPERVISION

By: James E. Gilleran
Director
Dated:

IN WITNESS WHEREOF, each of the parties hereto has caused this MOU to be executed by its duly authorized officer on the date indicated below.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

By: Susan Schmidt Bies
Governor
Dated:

FINANCIAL CRIMES ENFORCEMENT NETWORK

By: William J. Fox
Director
Dated:

FEDERAL DEPOSIT INSURANCE CORPORATION

By: Donald E. Powell
Chairman
Dated:

OFFICE OF THE COMPTROLLER OF THE CURRENCY

By: John D. Hawke Jr.
Comptroller of the Currency
Dated:

NATIONAL CREDIT UNION ADMINISTRATION

By: JoAnn M. Johnson
Chairman
Dated:

OFFICE OF THRIFT SUPERVISION

By: James E. Gilleran
Director
Dated: 9/22/2004

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 1, 2004
js-1974

Treasury and IRS Issue Ruling To Halt Abusive Employment Tax Arrangements Involving Employee Parking

Today Treasury and the IRS issued guidance to shut down an abusive employment tax arrangement involving double employer reimbursements for an employee's parking expenses. The ruling clarifies that employer reimbursements for parking are not excludible from income and wages for employment tax purposes where the parking has already been paid for by the employee on a pre-tax basis (such as by salary reduction elections by employees). This ruling will not affect regular arrangements between employers and their employees that provide qualified parking benefits.

Generally, employer-provided qualified parking benefits, including employer reimbursements of qualified parking expenses paid by an employee, are excluded from income and wages for employment tax purposes. Where the parking is provided pre-tax, however, employers cannot then exclude the amounts twice by treating payments to the same employees as excludible reimbursements for parking.

"This is a classic 'double-dip' arrangement that recently has come to our attention," stated Acting Assistant Secretary for Tax Policy Greg Jenner. "Treasury and IRS have acted promptly to shut it down, enabling responsible taxpayers and their advisors to stay away from such double-dip arrangements in the future."

The ruling explains that since pre-tax parking is provided by the employer, and not the employee, there is no expense by the employee that can be reimbursed with excludible funds. Further, the ruling states that the position that such payments are excludible reimbursements of qualified parking expenses is meritless.

As described in the ruling, the arrangement could be invisible to the employee, whose take home pay remains unchanged. The ruling notes that the payments remain taxable whether or not the payments are calculated to provide employees with the same net pay. The holding also states that it applies with respect to other double-dip arrangements involving attempts to exclude alleged reimbursements of the cost of nontaxable benefits which are provided by employers on a pre-tax basis.

The text of Revenue Ruling 2004-98 is attached.

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REPORTS

- Revenue Ruling 2004-98

Part I

Section 132(f).—Qualified Transportation Fringes

26 CFR 1.132-9(b): Qualified Transportation Fringes

Rev. Rul. 2004-98

ISSUE(S)

Whether, under the facts described below, the exclusion from gross income under § 132(a)(5) applies to payments from an employer to employees characterized as "reimbursements" by the employer.

FACTS

Employer X decides to provide parking for its employees. The parking will be on or near X's business premises.

Before X implements the arrangement for parking, as described below, X pays Employee A monthly wages of $1,500. After withholding for employee FICA tax of $114.75 and withholding for federal income tax of $83.80, A's net pay is $1,301.45.

Monthly wages	$1,500.00
FICA tax withholding	(114.75)
Federal income tax withholding	(83.80)
Net monthly payment	$1,301.45

X implements a payroll arrangement under which the amount of its employees' cash compensation is reduced in return for X providing parking. In addition, X makes "reimbursement" payments to employees with respect to parking expenses in amounts that cause employees' net after-tax pay from X to be the same amount as it would have been if there was no compensation reduction. X takes the position that both the compensation reduction amounts and the "reimbursement" payments are excluded from gross income of employees and are not subject to Federal Insurance Contributions Act (FICA) tax, Federal Unemployment Tax Act (FUTA) tax, or federal income tax withholding.

X can make the compensation reduction used to pay for parking under X's payroll arrangement mandatory or elective. For example, X could unilaterally reduce all

employees' salaries and provide parking to all employees. Alternatively, X could offer employees the choice, as permitted under section 132(f)(4), between cash compensation and parking, and provide parking to the employees electing to reduce their cash compensation.

After X implements the arrangement, Employee A's monthly wages of $1,500 are reduced by $100 in exchange for the parking. From the remaining $1,400, X withholds employee FICA tax of $105 and federal income tax of $73.30. X then pays A an additional $79.75 as a purported reimbursement of parking expenses, with the result that A's net pay remains at $1,301.45.

Monthly wages	$1,400.00
FICA tax withholding	(105.00)
Federal income tax withholding	(73.30)
Subtotal	$1,221.70
Additional payment	79.75
Net monthly payment	$1,301.45

LAW AND ANALYSIS

Section 132(a)(5) provides that any employer-provided fringe benefit that qualifies as a "qualified transportation fringe" is excluded from gross income. Section 132(f)(1) provides that the term "qualified transportation fringe" means (1) transportation between home and work in a commuter highway vehicle, (2) any transit pass, and (3) qualified parking. Under § 132(f)(5)(C), the term "qualified parking" means parking provided by an employer to an employee on or near the employer's business premises.

Section 132(f)(4) provides that no amount shall be included in the gross income of an employee solely because the employee may choose between any qualified transportation fringe and compensation that would otherwise be includible in the gross income of such employee.

Section 132(f)(3) provides that a qualified transportation fringe includes a cash reimbursement by an employer to an employee for qualified parking expenses. Section 1.132-9(b) Q/A-16(a) of the regulations provides that a reimbursement must be made under a bona fide reimbursement arrangement within the meaning of § 1.132-9(b) Q/A-16(c) in order to be excluded from gross income. Section 1.132-9(b) Q&A-16(c) provides that employers that make cash reimbursements must establish a bona fide reimbursement arrangement to establish that their employees have, in fact, incurred expenses for qualified parking. The employer must implement reasonable procedures to ensure that an amount equal to the reimbursement was incurred by the employee for qualified parking.

Sections 3121(a) and 3306(b) define the term "wages" for FICA and FUTA purposes, respectively, as all remuneration for employment, including the cash value of all remuneration (including benefits) paid in any medium other than cash, with certain specified exceptions. Section 3401(a) contains a similar definition for purposes of federal income tax withholding. Sections 3121(a)(20), 3306(b)(16), and 3401(a)(19) provide for purposes of FICA, FUTA, and federal income tax withholding, respectively, that the definition of "wages" does not include any benefit provided to or on behalf of an employee if, at the time such benefit is provided, it is reasonable to believe that the employee will be able to exclude such benefit from income under § 132.

X's position with respect to the transaction described in this ruling is meritless. An employee may exclude from gross income employer reimbursements for qualified parking expenses, but only if those expenses were actually incurred by the employee. If an employee is given a choice between cash compensation or an employer-provided benefit under a statutory exception to the constructive receipt rules, such as § 132(f)(4), or if an employer unilaterally reduces an employee's cash compensation for the purpose of providing a non-taxable benefit, the benefit is treated as provided directly by the employer rather than purchased by the employee with the amount of the compensation reduction. Otherwise, the value of the benefit would not be excluded from the employee's gross income. The cost of providing the parking is incurred by Employer X, not Employee A, and the value of the benefit is excludable from A's gross income under § 132(a)(5) because the parking is on or near X's business premises, and the parking benefit is provided by X. Although the § 132(a)(5) exclusion applies to the qualified parking benefits provided by X, there is no expense incurred by Employee A for X to reimburse, and therefore the "reimbursement" payments that X makes to A are not excluded from gross income under § 132(a)(5). The conclusion would be the same whether the compensation reduction was mandatory or elective. The conclusion would also be the same if the employer originally provided free parking to employees and then upon implementing the payroll arrangement purported to impose a charge on employees for parking. See also, Rev. Rul. 2002-3, 2002-1 C.B. 316, which holds that a purported reimbursement of health insurance premiums paid by the employer, and not by employees, is not excludable from the gross income of employees under §§ 106(a) and 105(b).

Because the "reimbursement" payments were not reimbursements of expenses incurred by A for parking, it was unreasonable for X to believe at the time the "reimbursements" were paid to A that A would be able to exclude the payments from gross income under § 132(a)(5). Thus, the "reimbursement" payments are not excluded from wages for FICA, FUTA, or federal income tax withholding purposes under §§ 3121(a)(20), 3306(b)(16), or 3401(a)(19), respectively.

HOLDING

The exclusion from gross income under § 132(a)(5) does not apply to the payments characterized by the employer as "reimbursements." Employee A has not incurred an expense for parking for which there can be a reimbursement. Accordingly, amounts that Employer X pays to Employee A purportedly as reimbursements are included in Employee A's gross income and are wages subject to employment taxes under §§ 3121(a), 3306(b), and 3401(a). This is the outcome whether or not the amounts of Employer X's payments are calculated to provide Employee A with the same net pay A received prior to the implementation of the payroll arrangement.

In addition, this ruling applies to arrangements with respect to benefits other than parking where: (1) an employee's salary (and gross income) is reduced in return for a non-taxable benefit, and (2) the employer "reimburses" the employee for some or all of the cost of the non-taxable benefit and excludes the reimbursement from the employee's salary (and gross income) even though that cost was paid by the employer and not the employee.

DRAFTING INFORMATION

The principal author of this revenue ruling is Stephen D. Suetterlein of the Office of Associate Chief Counsel (Tax Exempt & Government Entities). For further information regarding this revenue ruling, contact Mr. Suetterlein at (202) 622-6040 (not a toll-free call).

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
JS-1975

Treasury Welcomes Public Comment on Development of National Strategy for Financial Education

Treasury's Office of Financial Education today called on financial education advocates, as well as government, academic, nonprofit and the private sectors, to respond to its request for public comment on behalf of the Financial Literacy and Education Commission for development of the first-ever national strategy for financial education.

The Financial Literacy and Education Commission was established under Title V, the Financial Literacy and Education Improvement Act, of the Fair and Accurate Credit Transactions Act of 2003 (P.L. 108-159). The Act calls for the establishment of a national financial education toll-free hotline and website, as well as the development of the country's first national strategy for financial education.

Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr., is leading the Commission's efforts to develop the national strategy. Iannicola emphasized the value and insight that may be gained by tapping into the expertise of groups for development of the national strategy. "All across America, dedicated groups and individuals are working to meet our country's need for financial education," said Iannicola. "Through this request for comment, we hope to learn from those who are making a difference in their communities by using financial education to improve lives. We'll use their insights to craft a sound national strategy to raise our country's level of financial knowledge."

The request for comment was filed at the Federal Register and was published on August 26, 2004. The comment period runs through the end of October of 2004. More information on the request for public comment for development of the national strategy can be found at: www.treas.gov/offices/domestic-finance/financial-institution/fin-education/strategy.shtml.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 29, 2004
JS-2076

Statement of Treasury Secretary John W. Snow
Third Quarter GDP

We are encouraged by the ongoing strong performance of the American economy, with a non-inflationary growth rate that is above the average for the past ten years. GDP continues to grow above the average of the 1970s, 80s and 90s, while the unemployment rate remains below the average for those decades.

Our economy grows when it is given the right stimulus – in this case, tax relief and good monetary policy. That stimulus, combined with the strength of our small-business sector and outstanding workforce, has led to a growing economy that is producing jobs in all sectors across the board.

There is still more that can be done to encourage growth and create jobs, and we must continue to implement President Bush's pro-growth policy agenda to achieve those goals.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
JS-1977

Treasury Official to Meet with Local Business Leaders in West Virginia

Treasury Deputy Secretary Samuel W. Bodman will be in Charleston and Parkersburg, West Virginia next week to meet with local business leaders and discuss the President's efforts to strengthen the economy and create jobs. Also, while in Parkersburg, the Deputy Secretary will tour Treasury's Bureau of Public Debt (BPD) facilities there and meet with employees. As the agency that borrows the money needed to operate the federal government, BPD issues and services U.S. Treasury marketable, savings and special securities.

The following events are open to the media:

Wednesday, October 6

8 a.m. EDT
Remarks before the Charleston Rotary
Fellowship Hall, Christ Church United Methodist
Quarrier Street
Charleston, West Virginia

12:15 p.m. EDT
Remarks before the Mid-Ohio Valley Chamber of Commerce
320 Market Street
Parkersburg, West Virginia

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
js-1978

Secretary John Snow with Finance Ministers During G-7 Meetings

Secretary John Snow with Finance Ministers During G-7 Meetings

All media queries should be directed to
The Press Office at (202) 622-2960.
Only call this number if you are a member of the media.

High Resolution Image

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
js-1979

Statement by G-7 Finance Ministers and Central Bank Governors
Washington, D.C. -- October 1, 2004

We thank the United States for presiding over the G-7 this past year and we are gratified by the international economic cooperation that has resulted in new initiatives such as the Agenda for Growth, the Strategic Review, the Global Remittance Initiative, and new G-7 outreach to both the Broader Middle East and North Africa countries and to China. We welcome the United Kingdom to the G-7 presidency in 2005, and we will continue to work together on these and new initiatives.

Global economic growth is strong and the outlook for 2005 remains favorable. Inflation and inflation expectations remain low in our economies. However, this is not the time for complacency. Growth is higher in some regions than in others; imbalances persist. Oil prices remain high and are a risk. So first, we call on oil producers to provide adequate supplies to ensure that prices moderate. Second, it is important consumer nations increase energy efficiency. Third, it is important for consumers and producers that oil markets function efficiently and we encourage the IEA to enhance its work on oil data transparency. We will return to the issue of medium term energy demand and supply at our next meeting.

We reaffirmed our commitment to sound public finances and to strategies for sustained medium term fiscal consolidation. Today we released a new report on our Agenda for Growth in which we agreed to make pro-growth structural reforms a regular part of our work to create more jobs and increase productivity. We welcome recent progress on the Doha Development Round.

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely and cooperate as appropriate. In this context, we emphasize that more flexibility in exchange rates is desirable for major countries or economic areas that lack such flexibility to promote smooth and widespread adjustments in the international financial system, based on market mechanisms.

We remain firmly committed to continue to cooperate in combating terrorist financing, which is essential for reducing the risks of terrorist attacks.

Emerging market economies generally face favorable financial conditions; interest rate spreads are low and volatility is down in many markets. We urge emerging market countries to take advantage of the favorable global economic conditions to lessen their vulnerability to external shocks. We urge the Argentine authorities to implement, as soon as possible, the prior actions required for the completion of the Third Review while fulfilling its current obligations fully and timely. Argentina's key challenges remain structural reforms, building a sound fiscal framework, and achieving high creditor participation in a sustainable debt restructuring. We welcome the approval by the IMF of a sound and credible program for Iraq, which is an important step toward our commitment to resolve Iraq's debt before the end of 2004. We welcome the financial assurances given by Iraq's creditors that made this IMF program possible.

We continue to support efforts to increase economic growth and reduce poverty in poor countries. We welcome the agreement to increase funding for the Asian Development Fund and we look forward to new replenishments of the African Development Fund and IDA. We reaffirm our commitment to fight global poverty and to help countries achieve the international development goals of the Millennium

Declaration through our work on debt sustainability, aid effectiveness, absorption capacity, and financing facilities. There is a need for additional financial aid grounded on the principles of good policies, debt sustainability, accounting for results, and enhancing predictability and aid effectiveness. We encourage the development banks to provide quantifiable indicators and results for all projects, and to make them publicly available. We are now committed to addressing the sustainability of debt of the poorest countries by making progress on debt relief and grant financing. We will prepare a progress report on these efforts by the end of the year.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
JS-1980

G8/Broader Middle East and North Africa Finance Ministers' Meeting
U.S. Treasury Secretary John Snow
Summary of Meeting, October 1, 2004

This morning, I hosted a meeting of finance and other economics ministers from the G8 and countries of the Broader Middle East and North Africa (BMENA). This meeting continues a dialogue pursued in September 2003 and April 2004 as well as provides an opportunity to further prepare for the first meeting of the Forum for the Future that leaders from the G8 and the region called for in Sea Island. I stressed that economic freedom can best harness the region's rich human and natural resources to meet the aspirations of its people for jobs and improving living standards. Redefining the role of the state in the economy and allowing people more freedom in their economic decisions will provide them the incentives and opportunities to improve their lives.

Ministers welcomed the strong growth in economies in the region. They agreed it was important to take advantage of the strong global economic environment to implement further reforms to accelerate growth and job creation in our countries. They also welcomed the recent pledge by oil producers to increase production as a contribution to global economic stability.

Ministers from the G8 and BMENA region committed to work together to support market-oriented economic reforms, many of which they noted are already underway. They all stressed that is vitally important that reform be home-grown and initiated within the region, with strong ownership. They also stressed the importance of peace and security for private sector investment led growth. Our support for reform in the region will go hand in hand with our support for a just, comprehensive, and lasting settlement to the Arab-Israeli conflict, based upon U.N. Resolutions 242 and 338.

Ministers highlighted the importance of developing small and medium sized businesses (SMEs) and the private sector generally through targeted policy reforms and technical assistance. In particular, the ministers welcomed the launch of the International Finance Corporation's (IFC) new facility for technical assistance to support development of small businesses and the private sector in the region, which was approved by the IFC Board on September 28. Donors have already pledged at least $32.4 million to the facility, and additional donors have indicated plans to contribute. The IFC has also devoted $20 million of its own resources.

Ministers also agreed to enhance dialogue on economic and trade issues and assess the effectiveness and levels of development assistance to countries of the region. To this end, they asked experts from participating countries and both the regionally based and other development institutions to study and develop a network of funds, taking into consideration existing regional coordination mechanisms and as proposed by G8 and regional leaders in Sea Island, to advise G8 and regional governments on economic growth and job creation and to provide a forum for improved cooperation in improving effectiveness of official financing.

One priority stressed by regional ministers was the need to strengthen human capital and the institutional capacity of governments for development and reform. They asked the Arab Monetary Fund, International Monetary Fund, Arab Fund for Economic and Social Development, Islamic

Development Bank and World Bank to consult with interested countries, other official donors, and other institutions active in the region to identify and survey jointly top priorities for technical assistance, particularly monetary, fiscal and financial sector, on a country by country basis and produce a prioritized list for regional governments, G8 and official donors.

To meet the goals of sustained growth, job creation and diversification, ministers underscored the central importance of enhancing the integration of the BMENA region into the global economy. In particular, ministers:

- Supported the ongoing efforts of BMENA countries at the meeting to join the WTO.
- Agreed to discuss at future meetings how each country's ongoing reforms are strengthening its investment climate, with a view to improving certain quantitative indicators that it selects, drawing on work underway in the region.

Regional representatives stressed the need for their economies to be better integrated into the global economy, including through improved opportunities for trade both within the region and with industrial countries. Some Ministers highlighted the importance of financial services liberalization.

All the G8 and BMENA ministers looked forward to the launch of the Forum for the Future to initiate a broad dialogue among their countries. Ministers welcomed the Kingdom of Morocco's offer to host the inaugural meeting of the Forum later this year. The finance and economics ministers agreed to continue their dialogue and participate in the Forum for the Future.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
JS-1981

Statement by U.S. Treasury Secretary John Snow Following the Meeting of Group of 7 Finance Ministers and Central Bank Governors

Good evening. I was pleased to host the Finance Ministers in the United States Treasury building today.

We met at a time when the global economy is growing – at the fastest rate in 30 years – and are all committed to sustaining that growth.

Economic growth and prosperity are good for each of our nations individually, and it is good for each other to have growth among trading partners. Growth in the U.S., for example, is terrific for our trading partners... and their growth is essential for our success. As a global economy, we have become more and more symbiotic, and this is broadly understood today.

That's why the wonderful consensus and collaboration among the countries of the G-7 is so important. We agree on having open economies, free trade, a free flow of capital. Last September, we agreed on the key objective of making lasting changes to our economies that will help deliver stronger global growth that is broad-based and sustainable well into the future. We committed, together, to implement structural changes in our economies under what we call the Agenda for Growth. This initiative focuses on reforms – such as marginal tax rate reduction, labor market reform and regulatory changes – that will boost productivity and employment and raise economic performance over the long term.

This September, we are carrying forward with a renewed commitment to the Agenda for Growth. We released a new report on the initiative today that lays out our agreement to make pro-growth structural reforms a regular part of our work to create more jobs and increase productivity. Each G-7 country has taken concrete actions to advance the Agenda, and I am proud to put the United States' reform agenda alongside others' efforts.

The U.S. has, indeed, led the way for global growth. The pro-growth policies of President Bush, combined with sound monetary policy from the Federal Reserve Board, have led to strong recovery and growth here at home. GDP growth is the strongest in 20 years, and job creation is steady, with 1.7 million new jobs created over the past year. The unemployment rate is down in 47 states from one year ago, and at 5.4 percent the national rate is lower than the average of the 1970s, 80s and 90s.

As we talked about economic successes in the U.S. and other countries, we came back again and again to the importance of small businesses and entrepreneurs to any nation's economic health. It is clear that small business has helped all of the G-7 nations, and we believe support for small and medium enterprise is critical in developing countries as well. Small businesses are a key to creating the jobs necessary to raise standards of living and lift people out of poverty.

In our discussions, we agreed that emerging markets have a great opportunity today to prepare for future challenges. We called on them to take advantage of the current favorable economic conditions to strengthen their policies and reduce vulnerabilities to potential future shocks. For Argentina, for example, it is vital to achieve high creditor participation in debt restructuring and to build a sound fiscal framework.

Also, we were all pleased to see Iraq put in place an IMF program. This is an important step toward resolving Iraq's debt before the end of this year - a goal to which we are committed. Working together, Iraq and the IMF have created a sound and credible economic program. We congratulate them. Iraq's creditors are also to be commended for providing the financial assurances that made this possible.

While good news about the world economy and ambitious plans for solidifying growth dominated our meeting, the cost of energy was also discussed.

Right now, oil prices are causing an economic headwind. The geopolitics of oil, and current uncertainties, are causing a short-term phenomenon. The Finance Ministers and I are committed to promoting policy reforms in each of our countries to speed the return of more reasonable costs.

The U.S. Congress – specifically the Senate – needs to pass the President's energy plan to get things started here at home. The President's plan will make us less dependent on foreign oil, and will also create lots of good jobs for Americans.

I also hosted an exciting meeting today – full of energy and purpose -- on another important challenge for the international community -- supporting economic reform in the broader Middle East and North Africa. The finance ministers of the G8 and 18 countries in the region all came together with this common goal. I was struck by how the region's economic policymakers are determined to advance market–oriented reform in the region, to meet the aspirations of their people for jobs and better lives.

I believe the key to progress is greater political and economic freedom to give individuals the power to improve their own lives. The G8 is seeking to be supportive of the ongoing market-oriented reform agenda developed by the economic leaders of the region. It includes working to develop proposals to stimulate the growth of small- and medium-sized enterprises, make the international financial institutions and development assistance more effective in dealing with the development challenges in the region, establish a greater reliance on markets, strengthen financial institutions, and increase trade.

This year is the 60th anniversary of the Bretton Woods Institutions, and the Finance Ministers spent some time discussing the progress of reform – and the need for further reforms – among those institutions.

We believe the Bretton Woods Institutions have a responsibility to continue their own reforms, for example the need for them to provide quantifiable indicators and results for all projects. They also need to do more to reinforce debt sustainability in poor countries.

The G-7 Finance Ministers are working together with other donors, with the institutions themselves, and with recipient countries to achieve a consensus on the best way to solve the debt sustainability problem and ensure that our reforms only result in greater, not fewer, resources to poor countries. We agreed that financial support for developing countries will be most effective when it is grounded in the principles of strong country policies, sustainable debt burdens, and accountability for results.

New directions for the international financial institutions will help ensure that they are equipped for modern markets and will be effective in promoting growth and stability well into the future.

As you know, we took the historic step this evening of meeting with our Chinese counterparts. We discussed China's current economic situation and outlook, which are of major importance to the broader global picture. The G-7 has indicated separately and collectively over time our support for greater flexibility in the Chinese exchange rate. Sustained, non-inflationary growth in China is important for maintaining strong global growth, and a more flexible and market-based renminbi exchange rate is an important part of achieving this goal. I have been encouraged by some of the advances that have occurred. Tonight, I underscored that I would like to see China move more quickly

As always, the G-7 Finance Ministers had a productive meeting. I am proud to have

hosted the Group and look forward to working with the next Chair of the G-7, my good friend Chancellor Gordon Brown, when the UK hosts our next G-7 meeting in early 2005.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
js-1983

Statement on Meeting of the G-7 Finance Ministers and Central Bank Governors with Chinese Counterparts Washington, D.C., October 1, 2004

The G-7 Finance Ministers and Central Bank Governors met informally with China's Finance Minister and Central Bank Governor. They discussed the global economic outlook, macroeconomic policies in G-7 economies and the Chinese economic situation in a candid way. Among other things, they exchanged views on economic impact of oil prices, fiscal and monetary policies in G-7 economies, Asian economic outlook, and exchange rate flexibility. It was agreed that this meeting was a constructive channel to share views on issues of mutual concern and to promote mutual understandings.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

September 21, 2004
JS-1984

Good International Economic Stories You Don't Read About
John B. Taylor
Under Secretary of Treasury for International Affairs
Remarks at a Breakfast Hosted By
Tepper School of Business
Carnegie Mellon University
Duquesne Club
Pittsburgh, Pennsylvania
September 21, 2004

Thank you for inviting me to speak here today. It is good to be back in Pittsburgh where I grew up and have many fond memories and friendships.

Today is the last day of summer. Near the end of this summer and every summer for the last 25 years, the Kansas City Federal Reserve Bank has held an international conference in Jackson Hole, Wyoming, overlooking the majestic Teton Mountains. Central bankers--including the Chairman of the Federal Reserve Board--finance ministry officials, and journalists travel to the conference from around the world to talk and compare notes about current global financial matters. I went to the first Jackson Hole monetary conference in the summer of 1982, and I have attended many since then, including this summer's conference. And after the conference, I traveled to South America, Africa, and Europe where I discussed further the global economic situation with finance ministers and central bank governors in their own countries.

The talk at this year's Jackson Hole conference and at other meetings I attended in the last month was much different from years past. The talk virtually everywhere is about how remarkably good the global economy is right now. And this good global economy is good news for the United States economy because it means that the growth in exports, in jobs, and in incomes for Americans will be more certain and lasting.

Unlike many conferences in the past, this year there were no major financial crises in the world to talk about. This was in marked contrast to the 1990s when one financial crisis after another brought high interest rates and soaring unemployment to the economies of Latin America, Asia, and Russia.

Contagion of financial crises across countries, which was discussed so much during the conferences in the 1990s, also seems to have disappeared from the scene. It was in 1998 that the default on Russia's debt caused financial storms as far away as Africa, Latin America, and East Asia. In the more recent Argentina default there was no contagion beyond Uruguay, which is just next door.

And there was no major economy in recession this year. The only recession that I heard mentioned at the conference was the recession in the "crisis expert" business. One crisis expert even complained to me about the lack of business, and jokingly asked if I could do something about it.

There was no talk of bubbles either. Most economies in the world are now growing at a healthy "goldi-locks" pace--neither too fast nor too slow--suggesting that global economic growth will continue. The United States is expanding at a sustainable pace--for the third year in a row. The second largest economy in the world, Japan, has also been growing nicely, in contrast to its lost decade of the 1990s. China's rapid growth earlier in the year has slowed to a more sustainable pace, and the rest of Asia is again doing well after last year's SARS scare. In Latin America, growth has picked up in Mexico, Columbia, Peru, Chile, Brazil, and Argentina. Latin

America grew at over 5 percent so far this year. Russia and most of the European economies are also growing strong. Even the French and German economies have shown signs of growth this summer.

Another difference from the events surrounding many past conferences had to do with interest rates. Interest rate spreads between emerging market bonds and U.S. Treasuries--an important measure of global risk--are at historically low levels. Spreads have come down markedly during the last two years. They have stayed down despite the forecasts early this year that spreads would rise sharply throughout the year as monetary tightening in the United States began.

Another measure of risk--volatility in currency markets--is also low. You can clearly detect this in the prices of currency options, but ask currency traders and they will tell you about it. The one element of risk that was discussed a lot at the conference was the high price of oil, but fortunately it had declined in the week before the conference.

Finally, there were no major inflation scare stories to talk about this year. Inflation is low and stable in the United States and Europe, and the persistent deflation in Japan is past its low point and price stability is expected soon. That benign inflation environment is more evidence that the global economic expansion should continue.

So what are international policy makers talking about this year? The formal topic of the Jackson Hole conference--demographic trends in the world economy--was far a field from the expertise of many participants, so conversations on this topic were short, usually expressing concerns that politicians need to start addressing the impact of aging populations on retirement and health programs.

Many of the conversations I was involved in, whether on hikes in the mountains or at meals and receptions, were about *why* economic times were so good and how long they would continue. I focused on the role of economic policies, whether in the United States, Japan, Brazil, or Turkey. The United States economy is growing--despite the setback of the downturn starting in 2000, the 9/11 terrorist attacks, and the corporate scandals--because of the timely response of monetary and fiscal policy, especially President Bush's tax cuts of 2001 and 2003. The Japanese economy is growing because Prime Minister Koizumi insisted on fundamental change, and monetary growth was increased and non-performing loans were reduced. Improved economic relations between the United States and Japan--led by President Bush and Prime Minister Koizumi--had a lot to do with these changes. Similar explanations hold for other good performances, including the high growth, declining inflation, low spreads under President Lula in Brazil and Prime Minister Erdogan in Turkey, two countries that had been plagued by crises in the recent past. As with Japan, support by the United States for these allies and their economic policies have been important. The path breaking Agenda for Growth with the G7 and the new Group for Growth with Brazil has reinforced and supported pro-growth policies by sharing experiences and knowledge.

What about the decline of crises and risk spreads and volatility? One reason they are down is because of the more credible focus on price stability by central banks--frequently aided by market-determined flexible exchange rates--which has largely ended the boom-bust cycle in many countries and is now laying the foundation for what may be the longest global boom we have ever seen. This trend began with the Federal Reserve years ago but has spread around the world in more recent years.

In addition, the international financial institutions have begun to reform, following calls by President Bush and his Administration. Important reforms include the greater clarity and predictability in the use of large-scale financing from the International Monetary Fund, the use of collective action clauses in emerging market debt, and the movement toward grants rather than loans at the World Bank. Such reforms themselves--while still very recent in their implementation--improve confidence, showing that international financial officials can work to make needed changes in the international financial system. Greater transparency has also helped to reduce contagion by enabling market analysts to better discriminate between countries that follow good policies and those that do not.

Usually the journalists who attend international conferences or who come to press briefings on my international trips report on the current economic events that come up in conversations or briefings. This year the journalists have not asked much and they have not written much about the remarkably good state of the world economy.

I recently asked a number of the journalists why. Most agreed that the global economic situation was indeed unusually good, but none thought it was news worthy to ask or write about. The reason was that, while unusual, it was good news, not bad news. As one of the journalists told me, "We won a prize for our coverage of the terrible Russian financial crises in 1998. There is no way we could win a journalism prize for covering the current good state of the world economy. I'm not going to cover it. I'd be surprised if anyone here covers it."

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

September 21, 2004
JS-1985

Good International Economic Stories You Don't Read About
John B. Taylor
Under Secretary of Treasury for International Affairs
Remarks at a Breakfast Hosted By
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September 21, 2004

Thank you for inviting me to speak here today. It is good to be back in Pittsburgh where I grew up and have many fond memories and friendships.

Today is the last day of summer. Near the end of this summer and every summer for the last 25 years, the Kansas City Federal Reserve Bank has held an international conference in Jackson Hole, Wyoming, overlooking the majestic Teton Mountains. Central bankers--including the Chairman of the Federal Reserve Board--finance ministry officials, and journalists travel to the conference from around the world to talk and compare notes about current global financial matters. I went to the first Jackson Hole monetary conference in the summer of 1982, and I have attended many since then, including this summer's conference. And after the conference, I traveled to South America, Africa, and Europe where I discussed further the global economic situation with finance ministers and central bank governors in their own countries.

The talk at this year's Jackson Hole conference and at other meetings I attended in the last month was much different from years past. The talk virtually everywhere is about how remarkably good the global economy is right now. And this good global economy is good news for the United States economy because it means that the growth in exports, in jobs, and in incomes for Americans will be more certain and lasting.

Unlike many conferences in the past, this year there were no major financial crises in the world to talk about. This was in marked contrast to the 1990s when one financial crisis after another brought high interest rates and soaring unemployment to the economies of Latin America, Asia, and Russia.

Contagion of financial crises across countries, which was discussed so much during the conferences in the 1990s, also seems to have disappeared from the scene. It was in 1998 that the default on Russia's debt caused financial storms as far away as Africa, Latin America, and East Asia. In the more recent Argentina default there was no contagion beyond Uruguay, which is just next door.

And there was no major economy in recession this year. The only recession that I heard mentioned at the conference was the recession in the "crisis expert" business. One crisis expert even complained to me about the lack of business, and jokingly asked if I could do something about it.

There was no talk of bubbles either. Most economies in the world are now growing at a healthy "goldi-locks" pace--neither too fast nor too slow--suggesting that global economic growth will continue. The United States is expanding at a sustainable pace--for the third year in a row. The second largest economy in the world, Japan, has also been growing nicely, in contrast to its lost decade of the 1990s. China's rapid growth earlier in the year has slowed to a more sustainable pace, and the rest of Asia is again doing well after last year's SARS scare. In Latin America, growth has picked up in Mexico, Columbia, Peru, Chile, Brazil, and Argentina. Latin

America grew at over 5 percent so far this year. Russia and most of the European economies are also growing strong. Even the French and German economies have shown signs of growth this summer.

Another difference from the events surrounding many past conferences had to do with interest rates. Interest rate spreads between emerging market bonds and U.S. Treasuries--an important measure of global risk--are at historically low levels. Spreads have come down markedly during the last two years. They have stayed down despite the forecasts early this year that spreads would rise sharply throughout the year as monetary tightening in the United States began.

Another measure of risk--volatility in currency markets--is also low. You can clearly detect this in the prices of currency options, but ask currency traders and they will tell you about it. The one element of risk that was discussed a lot at the conference was the high price of oil, but fortunately it had declined in the week before the conference.

Finally, there were no major inflation scare stories to talk about this year. Inflation is low and stable in the United States and Europe, and the persistent deflation in Japan is past its low point and price stability is expected soon. That benign inflation environment is more evidence that the global economic expansion should continue.

So what are international policy makers talking about this year? The formal topic of the Jackson Hole conference--demographic trends in the world economy--was far a field from the expertise of many participants, so conversations on this topic were short, usually expressing concerns that politicians need to start addressing the impact of aging populations on retirement and health programs.

Many of the conversations I was involved in, whether on hikes in the mountains or at meals and receptions, were about *why* economic times were so good and how long they would continue. I focused on the role of economic policies, whether in the United States, Japan, Brazil, or Turkey. The United States economy is growing--despite the setback of the downturn starting in 2000, the 9/11 terrorist attacks, and the corporate scandals--because of the timely response of monetary and fiscal policy, especially President Bush's tax cuts of 2001 and 2003. The Japanese economy is growing because Prime Minister Koizumi insisted on fundamental change, and monetary growth was increased and non-performing loans were reduced. Improved economic relations between the United States and Japan--led by President Bush and Prime Minister Koizumi--had a lot to do with these changes. Similar explanations hold for other good performances, including the high growth, declining inflation, low spreads under President Lula in Brazil and Prime Minister Erdogan in Turkey, two countries that had been plagued by crises in the recent past. As with Japan, support by the United States for these allies and their economic policies have been important. The path breaking Agenda for Growth with the G7 and the new Group for Growth with Brazil has reinforced and supported pro-growth policies by sharing experiences and knowledge.

What about the decline of crises and risk spreads and volatility? One reason they are down is because of the more credible focus on price stability by central banks--frequently aided by market-determined flexible exchange rates--which has largely ended the boom-bust cycle in many countries and is now laying the foundation for what may be the longest global boom we have ever seen. This trend began with the Federal Reserve years ago but has spread around the world in more recent years.

In addition, the international financial institutions have begun to reform, following calls by President Bush and his Administration. Important reforms include the greater clarity and predictability in the use of large-scale financing from the International Monetary Fund, the use of collective action clauses in emerging market debt, and the movement toward grants rather than loans at the World Bank. Such reforms themselves--while still very recent in their implementation--improve confidence, showing that international financial officials can work to make needed changes in the international financial system. Greater transparency has also helped to reduce contagion by enabling market analysts to better discriminate between countries that follow good policies and those that do not.

Usually the journalists who attend international conferences or who come to press briefings on my international trips report on the current economic events that come up in conversations or briefings. This year the journalists have not asked much and they have not written much about the remarkably good state of the world economy.

I recently asked a number of the journalists why. Most agreed that the global economic situation was indeed unusually good, but none thought it was news worthy to ask or write about. The reason was that, while unusual, it was good news, not bad news. As one of the journalists told me, "We won a prize for our coverage of the terrible Russian financial crises in 1998. There is no way we could win a journalism prize for covering the current good state of the world economy. I'm not going to cover it. I'd be surprised if anyone here covers it."

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 2, 2004
JS-1986

Statement by the Honorable John w. Snow
Secretary of the Treasury of the United States of America
International Monetary and Financial Committee Meeting
Washington, D.C., October 2, 20

We meet today at a time when the world economy is growing faster than it has in a quarter century. Across many of our economies, including many that have faced recent challenges, growth is strengthening and prospects are bright. No major economy is in recession or facing high inflation, and there are no major financial crises to discuss. Interest rate spreads between emerging market bonds and U.S. Treasuries are at historically low levels, and volatility in many financial markets remains low. But we cannot rest on our laurels -- risks remain, notably from oil prices.

The United States is doing its part to support and sustain this growth path. Real GDP growth in the second quarter was up more than 4 ½ percent over the previous year. Capital spending, manufacturing output, and job growth are very strong. Economic fundamentals are sound as strong productivity growth continues and inflation remains modest. And the President is committed to cutting the deficit in half within the next five years.

All the major economies need to continue to focus on increasing economic potential. I am pleased with the progress the G-7 are making through the Agenda for Growth on structural policies to increase flexibility and boost productivity growth and employment. This effort will be broadened as the OECD's Working Party 3 begins to assess more fully the cross-border impact of structural reforms as part of its normal discussions.

Free trade is key to spreading the benefits of growth. The U.S. applauds the Geneva WTO agreement and calls for an ambitious outcome in further talks, focusing on agriculture, industrial and consumer goods, and services, including financial services. We welcome the IMF's support for these efforts.

An IMF for the Future

The IMF plays a key role in helping to improve the global economic environment. To help ensure that the IMF is able to continue this role and serve its members effectively, we need to persist in advancing institutional reforms, building on recent progress. This is the reason that I called for a Strategic Review of the IMF, along with the World Bank, and I am grateful for the interest that the Managing Director has taken in this effort.

It is worth remarking on the progress that has been made in updating the IMF's policies and practices to meet the challenges of today's world economy. A few examples:

- The creation of clearer limits and criteria for exceptional access allows the IMF to respond robustly to a country's financing needs and at the same time providing increased predictability to borrowers and the markets. Strong implementation of this framework is important and will help solidify the longer-term strategy of the official sector in dealing with crises.
- Tightening of the focus of IMF, emphasizing its central expertise in monetary, fiscal, financial market, and exchange rate policies.
- Collective action clauses are the market standard in New York. Since Mexico led the way a year and a half ago, CACs are now included in 42

percent of the stock of external sovereign debt issued by emerging markets.

- The publication rate for country staff reports has topped 76 percent. Transparency is absolutely essential to reinforce accountability of economic policies, and I urge all countries to publish IMF surveillance and lending papers.
- The IFIs have enhanced financial sector surveillance, including by evaluating observance of key standards in over 100 countries and jurisdictions. The FATF anti-money laundering and counter terrorist-financing standard is now integrated into the IMF's efforts to protect the integrity of the international financial system.

Further steps are needed to help the IMF engage effectively with its members on the macroeconomic policies needed to achieve and sustain growth and stability. This year we have benefited from the IMF's Biennial Review of Surveillance. The U.S. strongly concurs with the conclusion that the IMF needs to be more candid and direct in exercising firm surveillance over exchange rates. I welcome the increased focus on balance sheet and currency mismatches and debt sustainability assessments. To reduce vulnerabilities in all countries, the IMF needs to put these tools to work more systematically. Financial sector analysis needs to be stronger, including through better integration of the views of capital markets staff into the Fund's work.

The IMF should also strengthen its engagement with members by introducing a new vehicle to support countries' own sound reform agendas when IMF financing is not needed. Thus, we are pleased to see the IMF initiate work on a Policy Monitoring Arrangement (PMA). Such an arrangement should be entirely voluntary, promote country ownership and support high quality standards, while better filling the gap between lending and surveillance. I hope that the Board will agree to operationalize the proposed PMA by year-end.

Of course, IMF financing remains central for countries facing short term balance of payment needs, so that these members are afforded time for policy implementation and economic adjustment. When it lends, the IMF needs to set a high bar for reforms. But the IMF should not rely solely or even primarily on lending to influence economic policies.

IMF Role in Low Income Countries

Macroeconomic stability is a necessary but not sufficient condition for growth in all countries, including the poorest. Thus, the IMF has a central role to play in fostering sound macroeconomic policies in low income countries through its policy advice, technical assistance and lending. Enhancing the Fund's toolkit to allow for stronger surveillance and clear signaling will be an important step in the near term.

Since we last met, the G-8 heads of state committed to consider measures that can further help the poorest countries address the sustainability of their debt. Empirical evidence shows that unsustainable debt burdens reduce private sector investment which is essential for economic growth and poverty reduction. We must do more to look at ways the international financial institutions can end the destructive cycle of lend-and-forgive, and to increase debt relief to the poorest.

Action is urgent and vital. I believe we should be guided by several key principles. First, debt must be sustainable; economic growth and poverty reduction requires private investment, which will not come in the context of unsustainable debt burdens. Second, loans should not be made when it is highly probable that they will be forgiven. Third, grants and debt relief must be significantly increased for the heavily indebted poor countries. This effort extends beyond the IMF; the international community must join together to bring change.

Assisting Iraq

I welcome the decision of the Executive Board earlier this week to provide financial support to Iraq under the IMF's facility for Emergency Post-Conflict Assistance. This timely support will help the Interim Iraqi Government push forward with an ambitious program to strengthen the economy, and in so doing reinforce the foundation on which Iraq and the international community build a better life for the Iraqi people.

Moving Forward Together

We have the opportunity to build on a shared view of the need for reform and more importantly to act decisively to bring change. I attach particular urgency to helping the poorest countries achieve a sustainable footing.

Before closing, I want to touch on representation in the IMF. The IMF is a financial institution of shareholders. Over time, the world economy has evolved, and the Fund's governance should evolve accordingly so that countries' positions better reflect their global weights and so the Board can continue to discharge its duties effectively. Already, change has outpaced that at the IMF. Many fast growing emerging markets clearly are playing roles in the world economy that far exceed their current IFI weights. Many parts of Europe have joined a currency union, while European representation accounts for roughly one-third of the Board's seats, and we are all watching moves toward further European integration. And, while many emerging markets are now a much larger share of the global economy, other countries have fallen behind. We will need to consider how to address these interrelated issues in the coming years.

I feel very positive about the international cooperation we have seen thus far in bringing reform to the international financial institutions. I look forward to moving forward together.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 2, 2004
JS-1987

Secretary Snow
Development Committee Statement for the Record
October 2, 2004

This meeting of the Development Committee takes place at a time of considerable focus on the conditions necessary for meeting the international goals set out in the Millennium Declaration. Significant progress in meeting some of these international goals has been made -- approximately 70% of the developing world lives in countries on track to meet the reduction in poverty and hunger goal -- but gaps clearly remain.

The Monterrey compact agreed to two years ago sets out a mutually reinforcing set of commitments. Developing countries agreed to strengthen policies, governance and institutions to generate growth and create an enabling environment for development. Developed countries pledged to provide additional resources to those countries that demonstrate a commitment to such actions. And the international institutions were called upon to complement and catalyze national efforts through financial support and technical assistance.

The United States has already followed through on the promise we made at Monterrey to substantially increase aid to those taking needed steps to promote lasting, inclusive development progress. The U.S. pledged to increased official development assistance by 50 percent over the 2000 levels by 2006. We met this commitment in 2003 and by 2006 U.S. ODA is projected to be roughly 70 percent above fiscal year 2001 levels. This includes pledges to substantially increase our funding for the multilateral development banks, including IDA; implementation of the Millennium Challenge Account, and a plan to provide $15 billion for HIV/AIDS over the next five years.

U.S. assistance is based on the concepts of transparency and measurable and monitorable development results on the ground. It is real money that is being provided now and will continue to be provided in a sustainable and predictable manner. It is assistance coming directly from the United States to the countries or institutions that can use it most effectively, as opposed to recent proposals to put in place complex global taxation schemes that would not be democratically accountable to the American people.

The U.S. contributes to development in other ways as well. U.S. growth for this year is strong and demand from the U.S. has been a major factor in growth in many other parts of the world. The U.S. is also a major source of remittances that fuel growth of incomes and small businesses throughout the developing world. Virtually all economies in the world are now growing, emerging market bond spreads are decreasing, and emerging stock markets have risen by around 40% since the beginning of 2002. But we realize more must be done to build on this success, particularly when it comes to trade. We are firmly committed to a successful outcome of the Doha Development Round and worked hard with other countries to reach an agreed framework that should lead to successful completion of the trade talks.

Role of Developing Countries and the World Bank

Increased resources from the United States and other donors are not enough. It is critical that developing countries put in place the policy frameworks that will allow them to use these and other resources effectively and to set the basis for sustainable financing for development needs over the longer run, in particular from private domestic and foreign resources. This includes putting in place transparent

fiscal systems that can account for the receipt and expenditure of donor flows and other public revenues. The World Bank has a role to play in helping countries improve their own systems with a goal of bringing them up to world class standards.

This will also require policies that promote a stable, growing economy and a **sound business environment**. The World Bank and other MDBs can play an important role in helping countries adopt such policies. The World Bank has a wealth of expertise and information that it can utilize to help countries address barriers to both domestic and foreign investment. The Doing Business Report and Investment Climate Assessments are excellent tools for highlighting key barriers to private investment. The challenge is to coordinate with other donors on practical follow-up action to help individual countries undertake the necessary reforms.

The World Bank can also play a role in catalyzing **private sector investment** more directly. Its loans, grants, guarantees and other innovative programs can create successful public private partnerships that will create the missing infrastructure that is a major barrier to strong growth in many countries. The U.S. and other G-7 countries have urged the Bank to ramp up its programs that support small and medium enterprises, which are a major source of employment and which face barriers that are in many cases different than those faced by larger enterprises.

Improving **remittances services** directly benefits households and small businesses. The World Bank has played a critical role in examining remittance corridors in APEC economies, and more broadly, identifying barriers to the competitive provision of remittance services and developing strategies to address those impediments. To meet the Sea Island Summit goal to 'lower the cost of remittance services through competition, expand the use of and access to remittances services, and enhance the development potential of the flows', the US and the G7 have encouraged the World Bank to lead efforts, with the appropriate experts, to improve statistical reporting of remittance data. The World Bank can also expand its country work by designing and funding projects aimed to increase access and minimize barriers to competitive remittance services.

The World Bank needs to continue to improve its system of **internal and external accountability**. A transparent and comprehensive **internal governance** structure is critical to maintaining the ongoing support of its shareholders and to verify that its funds are used for the purposes envisaged. Similarly, a strong **results measurement** framework for its operations ensures that they lead to concrete outcomes that raise incomes and growth. This includes a transparent system for monitoring project and program results during implementation so that citizens in borrowing countries can hold their own officials and the Bank accountable for results.

Over time, the world economy has evolved, and the Bank's governance should evolve accordingly so that countries' positions better reflect their global weights and so the Board can continue to discharge its duties effectively. Already, change has outpaced that at the Bank. Many fast growing emerging markets clearly are playing roles in the world economy, which far exceed their current IFI weights. Many parts of Europe have joined a currency union, while European representation accounts for roughly one-third of the Board's seats, and we are all watching moves toward further European integration. And, while many emerging markets are a now a much larger share of the global economy, other countries have fallen behind. We will need to consider how to address these interrelated issues in the coming years.

Debt Sustainability and Grants – Correcting the Past and Ensuring the Future

The international community needs to take prudent and appropriate steps to ensure long-term debt sustainability for low-income countries, which is essential for economic growth and poverty alleviation. The G-8 Leaders emphasized this issue in Sea Island and pledged to consider measures that can further help the poorest countries address the sustainability of their debt. To break the ongoing "lend-and-forgive" cycle, grants and debt relief must be significantly increased. We urge the international community to consider more options to do so, including those that would provide up to 100 percent debt relief from the international financial institutions. Employing both grants and debt relief together would give the poorest countries a chance to reach the International Development Goals of the Millennium Declaration, without adding to debt burdens. The IDA-14 replenishment negotiation currently underway provides a timely opportunity to discuss the merits of these objectives.

The low-income country debt sustainability framework as currently proposed by the Bank and Fund is inadequate to address the ongoing debt problem. The proposed debt thresholds guiding lending decisions are alarmingly high suggesting that poor countries can sustain debt-to-exports ratios of up to 300 percent or devote up to 40% of revenues to debt service. Instead of weighing developing countries down with unsustainable debt loads, the international community should move ahead with an approach that is conducive to economic growth and poverty reduction. Cumulatively, the effects of additional debt relief and increased grants, coupled with sound development policies should give the developing countries that are committed to reform a stronger basis for achieving needed economic growth and a better chance of achieving the international development goals by 2015.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

September 21, 2004
js-1988

John B. Taylor
Under Secretary of Treasury for International Affairs
Remarks at a Breakfast Hosted By
Tepper School of Business
Carnegie Mellon University
Duquesne Club
Pittsburgh, Pennsylvania
September 21, 2004

Good International Economic Stories You Don't Read About

Thank you for inviting me to speak here today. It is good to be back in Pittsburgh where I grew up and have many fond memories and friendships.

Today is the last day of summer. Near the end of this summer and every summer for the last 25 years, the Kansas City Federal Reserve Bank has held an international conference in Jackson Hole, Wyoming, overlooking the majestic Teton Mountains. Central bankers--including the Chairman of the Federal Reserve Board--finance ministry officials, and journalists travel to the conference from around the world to talk and compare notes about current global financial matters. I went to the first Jackson Hole monetary conference in the summer of 1982, and I have attended many since then, including this summer's conference. And after the conference, I traveled to South America, Africa, and Europe where I discussed further the global economic situation with finance ministers and central bank governors in their own countries.

The talk at this year's Jackson Hole conference and at other meetings I attended in the last month was much different from years past. The talk virtually everywhere is about how remarkably good the global economy is right now. And this good global economy is good news for the United States economy because it means that the growth in exports, in jobs, and in incomes for Americans will be more certain and lasting.

Unlike many conferences in the past, this year there were no major financial crises in the world to talk about. This was in marked contrast to the 1990s when one financial crisis after another brought high interest rates and soaring unemployment to the economies of Latin America, Asia, and Russia.

Contagion of financial crises across countries, which was discussed so much during the conferences in the 1990s, also seems to have disappeared from the scene. It was in 1998 that the default on Russia's debt caused financial storms as far away as Africa, Latin America, and East Asia. In the more recent Argentina default there was no contagion beyond Uruguay, which is just next door.

And there was no major economy in recession this year. The only recession that I heard mentioned at the conference was the recession in the "crisis expert" business. One crisis expert even complained to me about the lack of business, and jokingly asked if I could do something about it.

There was no talk of bubbles either. Most economies in the world are now growing at a healthy "goldi-locks" pace--neither too fast nor too slow--suggesting that global economic growth will continue. The United States is expanding at a sustainable pace--for the third year in a row. The second largest economy in the world, Japan, has also been growing nicely, in contrast to its lost decade of the 1990s. China's rapid growth earlier in the year has slowed to a more sustainable pace, and the rest

of Asia is again doing well after last year's SARS scare. In Latin America, growth has picked up in Mexico, Columbia, Peru, Chile, Brazil, and Argentina. Latin America grew at over 5 percent so far this year. Russia and most of the European economies are also growing strong. Even the French and German economies have shown signs of growth this summer.

Another difference from the events surrounding many past conferences had to do with interest rates. Interest rate spreads between emerging market bonds and U.S. Treasuries--an important measure of global risk--are at historically low levels. Spreads have come down markedly during the last two years. They have stayed down despite the forecasts early this year that spreads would rise sharply throughout the year as monetary tightening in the United States began.

Another measure of risk--volatility in currency markets--is also low. You can clearly detect this in the prices of currency options, but ask currency traders and they will tell you about it. The one element of risk that was discussed a lot at the conference was the high price of oil, but fortunately it had declined in the week before the conference.

Finally, there were no major inflation scare stories to talk about this year. Inflation is low and stable in the United States and Europe, and the persistent deflation in Japan is past its low point and price stability is expected soon. That benign inflation environment is more evidence that the global economic expansion should continue.

So what are international policy makers talking about this year? The formal topic of the Jackson Hole conference--demographic trends in the world economy--was far a field from the expertise of many participants, so conversations on this topic were short, usually expressing concerns that politicians need to start addressing the impact of aging populations on retirement and health programs.

Many of the conversations I was involved in, whether on hikes in the mountains or at meals and receptions, were about *why* economic times were so good and how long they would continue. I focused on the role of economic policies, whether in the United States, Japan, Brazil, or Turkey. The United States economy is growing--despite the setback of the downturn starting in 2000, the 9/11 terrorist attacks, and the corporate scandals--because of the timely response of monetary and fiscal policy, especially President Bush's tax cuts of 2001 and 2003. The Japanese economy is growing because Prime Minister Koizumi insisted on fundamental change, and monetary growth was increased and non-performing loans were reduced. Improved economic relations between the United States and Japan--led by President Bush and Prime Minister Koizumi--had a lot to do with these changes. Similar explanations hold for other good performances, including the high growth, declining inflation, low spreads under President Lula in Brazil and Prime Minister Erdogan in Turkey, two countries that had been plagued by crises in the recent past. As with Japan, support by the United States for these allies and their economic policies have been important. The path breaking Agenda for Growth with the G7 and the new Group for Growth with Brazil has reinforced and supported pro-growth policies by sharing experiences and knowledge.

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In addition, the international financial institutions have begun to reform, following calls by President Bush and his Administration. Important reforms include the greater clarity and predictability in the use of large-scale financing from the International Monetary Fund, the use of collective action clauses in emerging market debt, and the movement toward grants rather than loans at the World Bank. Such reforms themselves--while still very recent in their implementation--improve confidence, showing that international financial officials can work to make needed changes in the international financial system. Greater transparency has also helped to reduce contagion by enabling market analysts to better discriminate between countries that follow good policies and those that do not.

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Many of the conversations I was involved in, whether on hikes in the mountains or at meals and receptions, were about *why* economic times were so good and how long they would continue. I focused on the role of economic policies, whether in the United States, Japan, Brazil, or Turkey. The United States economy is growing--despite the setback of the downturn starting in 2000, the 9/11 terrorist attacks, and the corporate scandals--because of the timely response of monetary and fiscal policy, especially President Bush's tax cuts of 2001 and 2003. The Japanese economy is growing because Prime Minister Koizumi insisted on fundamental change, and monetary growth was increased and non-performing loans were reduced. Improved economic relations between the United States and Japan--led by President Bush and Prime Minister Koizumi--had a lot to do with these changes. Similar explanations hold for other good performances, including the high growth, declining inflation, low spreads under President Lula in Brazil and Prime Minister Erdogan in Turkey, two countries that had been plagued by crises in the recent past. As with Japan, support by the United States for these allies and their economic policies have been important. The path breaking Agenda for Growth with the G7 and the new Group for Growth with Brazil has reinforced and supported pro-growth policies by sharing experiences and knowledge.

What about the decline of crises and risk spreads and volatility? One reason they are down is because of the more credible focus on price stability by central banks--frequently aided by market-determined flexible exchange rates--which has largely ended the boom-bust cycle in many countries and is now laying the foundation for what may be the longest global boom we have ever seen. This trend began with the Federal Reserve years ago but has spread around the world in more recent years.

In addition, the international financial institutions have begun to reform, following calls by President Bush and his Administration. Important reforms include the greater clarity and predictability in the use of large-scale financing from the International Monetary Fund, the use of collective action clauses in emerging market debt, and the movement toward grants rather than loans at the World Bank. Such reforms themselves--while still very recent in their implementation--improve confidence, showing that international financial officials can work to make needed changes in the international financial system. Greater transparency has also helped to reduce contagion by enabling market analysts to better discriminate between countries that follow good policies and those that do not.

Usually the journalists who attend international conferences or who come to press

briefings on my international trips report on the current economic events that come up in conversations or briefings. This year the journalists have not asked much and they have not written much about the remarkably good state of the world economy. I recently asked a number of the journalists why. Most agreed that the global economic situation was indeed unusually good, but none thought it was news worthy to ask or write about. The reason was that, while unusual, it was good news, not bad news. As one of the journalists told me, "We won a prize for our coverage of the terrible Russian financial crises in 1998. There is no way we could win a journalism prize for covering the current good state of the world economy. I'm not going to cover it. I'd be surprised if anyone here covers it."

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

September 30, 2004
js-1989

Treasury Announces $57.8 Million in Awards To Organizations Working In Nation's Economically Distressed Communities

Arthur A. Garcia, Director of the Treasury Department's Community Development Financial Institutions Fund (the Fund), traveled to Minnesota today to announce that a total of $57,843,468 is being awarded to 176 community-based organizations across the country that provide critically needed financial products and services to economically disadvantaged people and communities.

The organizations being awarded, known as community development financial institutions or CDFIs, are specialized financial institutions that are able to respond to gaps in their local markets that traditional financial institutions do not adequately serve. These CDFIs provide critically needed capital, credit and other financial products in addition to technical assistance to community residents and businesses, service providers such as daycare centers, and developers working to meet community needs like affordable housing.

"These CDFIs are on the front lines of creating needed jobs and helping foster economic growth in our nation's rural and urban low-income communities, and in our Native American, Alaska Native and Native Hawaiian communities," said CDFI Fund Director Garcia. "Today's awards will provide these community-based lenders the resources to do more – for example, to finance more mortgages for first-time homebuyers, to provide more investment capital to start or expand small businesses, to conduct more financial education classes for those individuals trying to understand and improve their credit history."

These awards are being made through the fiscal year 2004 round of the Fund's CDFI Program and Native Initiatives.

The CDFI Fund's mission is to expand the capacity of financial institutions to provide capital, credit and financial services to underserved populations and communities in the United States. Its vision is an America in which all people have adequate access to affordable capital, credit and financial services.

CDFI Program
Of today's awards, 68 awards totaling $46,659,641 are being made under the Financial Assistance (FA) Component of the CDFI Program. Through the FA Component, the CDFI Fund provides financing to certified CDFIs that demonstrate the ability to leverage dollar-for-dollar additional non-Federal monies to support comprehensive business plans of providing services to create community development impact in underserved markets.

In addition, 80 awards totaling $3,573,874 are being announced under the Technical Assistance (TA) Component of the CDFI Program. Through the TA Component, the CDFI Fund provides grants to CDFIs and entities proposing to become CDFIs in order to build their capacity to better address the community development and capital needs of their community. Previously this fiscal year, 29 awards totaling $1,246,722 were announced in this "rolling" program. Thus, the CDFI Fund in fiscal year 2004 has awarded a total of $4,820,596 in technical assistance grants.

Native Initiatives
The CDFI Fund currently has a number of initiatives designed to overcome barriers preventing access to capital, credit, and financial services in Native American, Alaska Native and Native Hawaiian communities (collectively referred to as "Native

Communities"). Among these initiatives are three funding programs targeted to increasing the number and capacity of existing or new CDFIs serving Native Communities.

Today, nine awards totaling $593,870 are being announced under the Native American CDFI Development (NACD) program; four awards totaling $302,100 are being announced under the Native American Technical Assistance (NATA) program; and 15 awards totaling $6,713,983 are being announced under the Native American CDFI Assistance (NACA) program.

In total, the CDFI Fund has awarded $8,494,083 under its Native Initiatives in fiscal year 2004. Previously, six awards totaling $510,900 were announced under the NACD program; and seven awards totaling $373,230 were announced under the NATA program. Like the TA Component, both of these programs had a rolling application deadline.

Please visit the CDFI Fund's website for more information on these awards: http://www.cdfifund.gov/.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 4, 2004
JS-1990

**Treasury Secretary John Snow Statement:
President Bush Signs The "Working Families Tax Relief Act Of 2004" & Keeps The Economic Recovery On Track**

Today, President Bush signed the "Working Families Tax Relief Act of 2004" into law. Because of the President's leadership, this historic tax relief will keep our economic recovery on track and prevent a tax increase on 94 million Americans. Some of the biggest winners today are the lower and middle income families who benefit from the lowest 10% bracket, the increased child credit, marriage penalty relief and alternative tax relief (AMT). These provisions, enacted in the Jobs & Growth Tax Relief Act of 2003, would have expired at the end of the year.

This legislation also provides assistance to those who are bearing the greatest burden and paying the highest sacrifice to wage the war against terrorism: our military personnel and their families. Allowing military families to include tax-free combat pay when calculating their refundable child credit and earned income tax credit will, in many instances, increase the credits to which they are entitled.

The "Working Families Tax Relief Act of 2004" includes an important provision similar to the Administration's proposal to create a uniform definition of a child for tax purposes. This provision helps realize the President's overall goal of simplifying the Tax Code by creating one definition for the dependent exemption, head-of-household filing status, Earned Income Tax Credit, child credit, and dependent care tax credit. This uniform definition will make it easier for families to claim the different tax benefits and will help reduce errors.

Finally, this legislation extends many of the annual expiring tax provisions that are included in the President's budget request and that are beneficial to many of our nation's businesses and individuals. The Research and Development tax credit, in particular, is vital to encouraging the technological innovation important to our continued economic growth.

I applaud the swift Congressional action to pass this legislation. The President's signature today completes the job, extending provisions that will help our economy to continue expanding and creating jobs.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

September 29, 2004
JS-1991

Iannicola Teaches Credit Management Class to Carson City High School Students in Nevada

Treasury's Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr., today taught a credit management class and personal finance skills to high school students at the Greater Nevada Credit Union's Carson High School Educational Branch. Iannicola discussed federal financial education resources available for use by credit unions in their financial education programs. Iannicola visited with the students employed at the credit union branch at the high school and answered questions for them.

Iannicola told the students about how managing credit wisely can help them establish a good credit history. He also emphasized how doing so can help them achieve important life goals like obtaining a higher education, getting a job and becoming owners of their own homes. "The Greater Credit Union Education Branch is a great use of experiential learning to help raise students' financial awareness," said Iannicola. "Both the student workers and the student members are learning how to responsibly manage a relationship with a financial institution. This is a skill that will benefit them their entire lives."

Iannicola thanked the Greater Nevada Credit Union for their efforts to help improve the financial literacy of students in Carson City, specifically through the branch located inside Carson High School. The 250 square foot Carson High School Educational Branch opened in 1996 and is designed to give students an opportunity to receive "real world" job experience and learn about managing money.

Established in 1949, Greater Nevada Credit Union is a not-for-profit financial institution that is owned by its membership and offers a full range of consumer banking services. The Greater Nevada Credit Union also provides financial literacy support by teaching classes, as requested by schools and other organizations, using materials from The National Endowment for Financial Education.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 6, 2004
js-1992

MEDIA ADVISORY Secretary Snow to Visit Missouri on Thursday to Discuss U.S. Economy

Treasury Secretary John W. Snow will visit Independence, Missouri on Thursday, October 7 to meet with local business leaders and discuss the President's efforts to strengthen the economy and create jobs.

"As a result of the President's economic leadership, we have overcome a recession and seen 12 straight months of job creation, totaling 1.7 million new U.S. jobs since August 2003," said Secretary Snow. "Missouri has gained new jobs so far this year, and the President's tax reform policies have ensured that more than two million Missouri taxpayers will have lower income tax bills in 2004."

During this trip to Missouri, Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

Recent indicators show that President Bush's economic policies continue to move the economy forward. According to the Labor Department, the national unemployment rate declined to 5.4% in August – down 0.9 percentage point from a peak of 6.3% in June 2003 and the lowest rate since October 2001. At 5.4%, the unemployment rate is below the average of the 1970s, 1980s, and 1990s. Employment over the last year was up in 47 of the 50 states and the unemployment rate was down in all regions and in 45 of the 50 states.

The following event is open to the media, which must present media credentials or photo ID:

Thursday, October 7

Roundtable with Local Business Leaders
8:30 am CDT
The Independence Chamber
210 West Truman Road
Independence, MO
** Media should arrive by 8:00 am

Tour of Independence Center
10:00 am CDT
Independence Center
2035 Independence Center Drive
Independence, MO
** media should gather at Main Entrance on 39th St.
** There will be a brief press availability immediately following the event

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 6, 2004
js-1993

MEDIA ADVISORY Secretary Snow to Visit Toledo, Ohio on Friday to Discuss U.S. Economy

Treasury Secretary John W. Snow will visit Toledo, Ohio on Friday, October 8 to meet with local business leaders and discuss the President's efforts to strengthen the economy and create jobs.

"As a result of the President's economic leadership, we have overcome a recession and seen 12 straight months of job creation, totaling 1.7 million new U.S. jobs since August 2003," said Secretary Snow. "Ohio has gained new jobs so far this year, and the President's tax reform policies have ensured that more than 4.4 million Ohio taxpayers will have lower income tax bills in 2004."

During this trip to Ohio, Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

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The following event is open to the media, which must present media credentials or photo ID:

Friday, October 8

Roundtable with Toledo Center for Family Business Administrators
8:30 am EDT
University of Toledo Center for Family Business
2801 W. Bancroft Street
Toledo, OH
** Media should arrive by 8:00 am
** There will be a brief press availability immediately following the event

Tour of Dana Automotive Systems Technology Center
12:30 pm EDT
Dana Automotive Systems Technology Center
3939 Technology Drive
Maumee, OH
** Media should arrive by 12:00 pm

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 2, 2004
js-1994

Statement by Secretary John W. Snow
Meeting with Ministers from Bolivia, Chile,
Colombia, Ecuador, and Peru
October 2, 2004

I had an excellent meeting this morning with economic leaders from Bolivia, Colombia, Chile, Ecuador, and Peru to discuss our joint efforts to raise living standards and reduce poverty in our region.

I am pleased to report that economic performance in these countries has strengthened dramatically over the past year. Economic growth in these five countries is set to average 4.5 percent this year. A large portion of these gains has been powered by exports, which are growing at high double-digit rates in several countries. I commended my colleagues on the significant improvements in macroeconomic policies that have underpinned the stability that has allowed their countries to reap the benefits of the global economic recovery.

My colleagues and I agreed that the critical challenge now is sustaining high levels of economic growth, since faster growth is the most important tool for reducing poverty and raising the incomes of the poor. We discussed the various elements of our strategy for achieving higher growth and ensuring that the benefits of growth are shared by all.

Free trade is clearly central to that strategy. Chile and the United States are already deepening their economic ties in response to the new opportunities created by the recently implemented U.S.-Chile Free Trade Agreement. Further efforts to reduce trade barriers through successful negotiation of an Andean Free Trade Agreement, Free Trade Area of the Americas, and the Doha Development Agenda are essential to fueling this engine of prosperity.

We discussed the importance for growth of increasing investment in infrastructure and education. My colleagues stressed opportunities for attracting private investment in these areas. There is a real emphasis on identifying and using successful models for public-private partnerships. And we agreed that the work undertaken by the IMF now to define best practices in budgetary accounting for these kinds of arrangements is very important.

Making markets work better within countries is also critical. This means creating an environment in which businesses have incentives to invest, innovate, and create jobs and people have the opportunities to lift themselves out of poverty. Locking in the progress that has been made in improving macroeconomic policies is one pillar supporting higher levels of growth. Now countries must also take on the challenge of expanding access to capital, making labor markets more flexible, reforming tax systems so they don't discourage hiring in the formal sector, and making it easier to start and grow a business.

The United States is committed to assisting countries in the region raise growth and reduce poverty through more effective development assistance. We all agreed that multilateral development bank projects must reflect countries' priorities and lessons learned from proven successes. This requires strengthened systems for measuring results. Increasing economic growth was a major theme at the Summit of the Americas earlier this year, where leaders agreed to act together to cut the time to start a business, triple credit to small businesses by 2007 with the Inter-American Development Bank, and halve the average cost of remittance transfers to the region by 2008. On the bilateral side, the new Millennium Challenge Account will direct aid to support the poorest countries' efforts to invest in education and health, build

markets, and fight corruption.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 6, 2004
js-1995

Mark Sobel
Deputy Assistant Secretary, International Monetary Policy
International Affairs, Department of Treasury
Remarks to Central America in the United States Conference held at the Department of State

A year ago, when we at Treasury spoke to many of our colleagues around the world about remittances, why remittances were an important public policy issue, and why remittances were a focal point for the US Treasury, our colleagues looked at us quizzically. You, the members of this audience, have a keen appreciation of the importance of remittances, and I'm pleased to say that now, so do most of our colleagues.

But let me not get ahead of myself. On the international side of the Treasury, we have many objectives. A first objective is:

- Promoting growth – not just in the major economies, but globally -- drives much of our work with emerging market and developing countries, including through the IMF and the MDBs.
- Growth in our view is the most important contributor to poverty reduction, and growth should be led by the private sector.
- The Treasury is quite understandably interested in promoting more robust financial systems around the world.
- And, of course, we want the international financial system to be safe and sound, and one aspect of that is promoting compliance with anti-money laundering and counter terrorist financing standards.

Remittances are extremely relevant to all of these objectives. Remittances are a growing and key source of capital and income for developing countries.

- Reported global remittance flows last year were almost $100 billion and some estimates put unrecorded remittance flows at ½ that level.
- The recorded flows were nearly twice official development assistance and exceeded 10% of GDP for many countries.
- These flows are more stable than many other sources of capital flows.
- These are private sector flows. They reach isolated segments of society, and are used not just for basic subsistence, but also for such development purposes as financing education and housing.
- Remittances flow through many channels – banking systems, money broker services, and cash couriers. Needless to say, personal transfers of cash are dangerous and unsound financial structures are vulnerable to abuse.

Remittances play a particularly important role in the Latin American, and especially Central American, economies.

- Flows to Latin America last year were $38 billion.
- To Central America , flows were $6.1 billion, up 12% from '02.
- Remittances constitute a large part of the Central American economies – in 2001, they were 24% of Nicaraguan GDP; and 14% of El Salvadorean GDP. 28% of the El Salvador 's population received remittances.

Remittances are different than the financial flows we in the United States are used to dealing with. We have huge computer systems for moving large and small amounts of money around domestically. I can send money anywhere in the US virtually cost free.

But the cost of international transmission of money can be much higher – often up to $30 on a transaction of $150 to $300. Why is it so costly? Simply put, the financial infrastructure for moving money efficiently across borders, especially small scale flows, is often weak.

The high cost lessens the amounts remitted, reduces flows and their development impact and increases the vulnerability of the financial system to abuse.

To address these problems, I think that technological innovation, clearing regulatory hurdles, and greater awareness among remitters and private institutions are essential elements.

For example, if a payment system in the US can communicate seamlessly with a payment system abroad, this will lower transmission costs. But if a bank in the US and a bank in El Salvador can only interact through costly correspondent relations, the costs will be high.

One need not be pessimistic on this front. The Federal Reserve and the Bank of Mexico have just developed a system to facilitate transmission of retail cross-border payments, including remittances. Existing proprietary cross-border payment system operators, such as VISA, have developed remittance specific products; new proprietary cross-border payment systems have been developed by organizations of financial service providers, such as the World Council of Credit Unions (WOCCU); and Citibank's purchase of Banamex now means remittances can be transmitted for $5 within the network. Already, in the US-Mexico remittance corridor, the cost of transmitting remittances has been cut 60%.

To reap these benefits more fully, Treasury has launched a "Global Remittance Strategy" which brings together many different initiatives. Our overall objectives are simple:

- To promote private sector outreach to stimulate competition in remittance services;
- To bring together statistical experts to improve remittance data;
- To gather standard setters to work on prudential standards for remittance service providers;
- To offer bilateral and multilateral assistance to strengthen financial systems;
- To provide technical assistance on anti-money laundering and counter terrorist financing; and
- To promote "financial literacy" as it called, or to "bank the unbanked." People who don't understand basics about how to open an account and what services can be provided will not use banks. Addressing this challenge requires a significant educational effort. In the United States , for example, the FDIC offers its Money Smart Training program, a train-the-trainer tool available in four additional languages (Spanish, Chinese, Korean, Vietnamese) targeting key immigrant communities.

Let me touch on our initiatives.

- Under the US/Mexico Partnership for Prosperity initiative, launched in fall 2001, Mexico and the US have worked together to promote competition among private providers, expand financial literacy, and improve the payment systems. This effort has galvanized significant attention: Last June, Treasury Deputy Secretary Bodman chaired the remittance roundtable discussion at the Second Annual Partnership for Prosperity conference which brought together over 600 people. The centerpiece of this effort has been the development of the Automated Clearing House (ACH) system by the Atlanta Fed and the Bank of Mexico, creating a connection between the retail inter-bank payment systems of the two countries.

- Under the APEC Remittance Initiative launched in fall 2002, the APEC economies have undertaken a regional effort to examine factors that contribute to the use of informal channels for remittances. By co-hosting with the World Bank and the Asian Development Bank a very successful Remittance Symposium this past June in Tokyo , APEC brought together the public and private sector to work toward creating a more competitive environment for remittances.

- Under Summit of the Americas Initiative, launched in January, our aim is to halve the cost of sending remittances by 2008 from 12% to 6% of a transaction. To this end, bilateral and multilateral efforts are being launched. On the bilateral front, Treasury and other US agencies will begin working intensively with pilot countries soon to be identified. A member of Treasury staff just returned from an assessment mission in Central America . These pilot projects will focus upon strengthening financial institutions, identifying and addressing impediments to remittance flows, working with the IFIs to target assistance to promote financial sector development and conducting civil society outreach. The Federal Reserve will host a conference next month on payment systems and the OAS is hosting outreach events.

- Under the 2004 Sea Island Remittance Initiative, each G-8 country studied the role remittances play in each of their economies, identified regulatory and other barriers to efficient delivery of remittances, selected a remittance partner country with which it would work, and approached the IFIs to explore what role each institution could play in furthering the goal of enhancing remittance services. Later this week, during the IMF/World Bank meetings, discussions will be held with the IFIs on remittance issues, including improving remittance data and developing prudential guidelines for remittance service providers.

I will turn the floor over to my fellow panelists now, but I hope in these brief moments, I have been able to share with you the importance that US public policy officials attach to facilitating the flow of remittances in an efficient and safe manner which enhances their development impact.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 7, 2004
JS-1996

The Honorable John W. Snow
Prepared Remarks:
Independence Chamber of Commerce
Independence, MO
October 7, 2004

Good morning; it's great to be here in Independence. I appreciate the opportunity to talk with you about the economy both here in Missouri, and all across this great nation of ours.

Here in Missouri, you've added thousands of jobs to your payrolls so far this year. That's good news for a lot of Missouri families... but I know it could be even better.

There are still people here in the "Show Me State" who are saying: "Show me where my new job will come from!"

And we can't be satisfied until those folks have found jobs.

I am often asked where the jobs of the future will come from – a month from now, a decade from now. That's a pretty tough question to answer. No one can predict what the next great technology or industry will be, but I know it's safe to say that most of America's jobs will always come from people like the ones gathered in this room today.

Your businesses may be small. They may never show up on the New York Stock Exchange or the Fortune 500 list... but they create jobs for the people of your community, and that means everything.

When our country goes through a rough patch, economically, small business has always been there to pull us out. You are part of the most powerful elements of our economy, which I see as a combination of: small-business owners and entrepreneurs, our outstanding workforce and the simple fact that we operate as a free market. These elements add up to the most open, flexible, adaptive and resilient economy in the world today.

The President understands how important you are to our economy, and he's made you a priority in his economic policies.

He understands that, as small-business owners and operators, fairness and freedom are the only two things that you really want from your government.

You seek the freedom to start up a new business venture, to run it and grow it, or to close the door and go fishing if that's what you want to do. You also want to be treated fairly, and you deserve nothing less.

In exchange for fairness and freedom, your unspoken promise to your country and our economy is: job creation and the fuel our economic engine runs on.

This is why the President cut your taxes and has called on Capitol Hill to give you the option of Association Health Plans to reduce your health insurance costs. That's why he wants to make the tax code simpler, fairer, and pro-growth. And it's why he wants to reduce that fear of baseless lawsuits that haunts you, costs you money, and ultimately acts as a tax on economic growth in this country.

With small business in the lead, our economy has come a long way.

When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence.

Those key elements that I mentioned earlier – small business, outstanding workers, and a free-market system – proved to be the foundation, as they always have been, for our impressive economic recovery following this series of economic blows.

Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, 1.7 million jobs have been created over the past year – 12 straight months of job growth. More people than ever before own their own homes. People are finding new jobs or getting a raise at work. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children. That said, we are not satisfied.

The President's tax relief is still working for the people of Missouri, with more than 2 million taxpayers saving money on their income tax bills in 2004 and 440,000 business taxpayers like you able to use your 2004 tax savings to invest in business equipment and employee compensation.

At this point, it is critical to make that tax relief permanent, and to continue lifting the barriers to growth in other areas as well – by making health care more affordable, abusive lawsuits more scarce, and energy costs more reasonable.

Thank you so much for having me here today in this great American city, and thank you for the work you do to keep our economy strong.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 7, 2004
js-1997

Treasury Issues Guidance on Classification of European Entities

Today, the Treasury Department and the Internal Revenue Service issued guidance on the classification of certain European business entities for U.S. tax purposes.

In general, the status of a business entity for tax purposes – for example, as a corporation or as another type of entity such as a partnership – depends on its form of organization. Regulations provide that entities that take particular forms in their country of organization are always treated as corporations for U.S. tax purposes.

Notice 2004-68 supplements this list of "per se" corporations to reflect recent developments in Europe. First, it provides that the Societas Europaea, which is a new type of entity in the European Union, will be treated as a corporation for U.S. tax purposes. Second, the notice provides that public limited liability companies under the laws of Estonia, Latvia, Liechtenstein, Lithuania, and Slovenia will also generally be treated as corporations for U.S. tax purposes.

A copy of Notice 2004-68 is attached.

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REPORTS

- Notice 2004-68

Part III - Administrative, Procedural, and Miscellaneous

Classification of Certain Foreign Entities

Notice 2004-68

This notice announces that Treasury and the Internal Revenue Service (the Service) will amend § 301.7701-2(b)(8) of the Procedure and Administration Regulations to include certain foreign entities on the list of entities always treated as corporations under section 7701 of the Internal Revenue Code.

BACKGROUND

The Service and Treasury issued final regulations concerning the classification of entities under section 7701 on December 18, 1996 (final regulations). See generally TD 8697 (1997-1 C.B. 215) and §§ 301.7701-1 through 3. Under the final regulations, a business entity that is not specifically classified as a corporation is an eligible entity that can elect its classification for federal tax purposes under certain circumstances. However, § 301.7701-2(b)(8) provides a list of certain foreign business entities that are always classified as corporations for federal tax purposes (the per se corporation list). These foreign business entities are generally referred to as per se corporations.

On October 8, 2001, the Council of the European Union adopted Council Regulation 2157/2001 2001 O.J. (L 294) (the EU Regulation) to provide for a new business entity, the European public limited liability company (Societas Europaea or

SE). The EU Regulation will enter into force on October 8, 2004, and will have legal effect in all the Member States of the European Economic Area (which includes all Member States of the European Union plus Norway, Iceland, and Liechtenstein). An SE must have a registered office in one of the Member States.

The SE is a public limited liability company. The EU Regulation provides general rules that govern the formation and operation of an SE, and supplements those rules for specified issues and issues it does not otherwise address by reference to the laws with respect to public limited liability companies for the country in which the SE has its registered office. Most of the countries in which an SE can have its registered office have a business entity that constitutes a public limited liability company and that currently is on the per se corporation list. However, an SE can have its registered office in the following countries that have a business entity that is a public limited liability company but that is not yet on the per se corporation list: Estonia, Latvia, Lithuania, Slovenia, and Liechtenstein.

DISCUSSION

The Service and Treasury have concluded that an SE is properly classified as a per se corporation because it will function as a public limited liability company. The Service and Treasury will issue temporary and proposed regulations that will modify § 301.7701-2(b)(8) to include the SE on the per se corporation list. Further, the temporary and proposed regulations will modify § 301.7701-2(b)(8) to include as per se corporations the Estonian Aktsiaselts, Latvian Akciju Sabiedriba, Lithuanian Akcine Bendroves, Slovenian Delniska Druzba, and Liechtenstein Aktiengesellschaft. These

entities are the public limited liability companies in their respective countries.

The status of an SE may be relevant to the application of various federal income tax provisions, such as the subpart F same-country exception under section 954(c)(3). Treasury and the Service are considering these issues and invite comments on any additional areas in which guidance on the federal tax treatment of an SE may be warranted.

EFFECTIVE DATE

The temporary and proposed regulations to be issued adding the Estonian Aktsiaselts, Latvian Akciju Sabiedriba, Lithuanian Akcine Bendroves, Slovenian Delniska Druzba, and Liechtenstein Aktiengesellschaft to §301.7701-2(b)(8) generally will apply to such entities formed on or after the date of this notice. However, they shall also apply to an entity formed before such date upon a 50 percent or greater change of ownership subsequent to such date. The temporary and proposed regulations to be issued adding the SE to § 301.7701-2(b)(8) will apply to entities formed on or after October 8, 2004.

DRAFTING INFORMATION

The principal author of this notice is Ronald M. Gootzeit of the Office of Associate Chief Counsel (International). For further information regarding this notice contact Ronald M. Gootzeit at (202) 622-3860 (not a toll-free call).

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 5, 2004
js-1998

US-Africa Mortgage Market Initiative Roundtable on Developing the Nigerian Mortgage Market U.S. Treasury Under Secretary John B. Taylor Opening Remarks, October 1, 2004

Thank you Mr. Rosenfeld for the warm welcome. Over the past year Ginnie Mae has provided critical support to the African Mortgage Market Initiative. I hope we can continue to work together to develop mortgage markets in Africa.

I would like now to welcome to Minister Ngozi Okonjo-Iweala and her delegation which includes Mr. Tanimu Yakubu, Managing Director of the Federal Mortgage Bank. Minister Okonjo-Iweala is Minister of Finance for the Federal Republic of Nigeria. Before becoming Minister in July 2003 she was a Vice President and Corporate Secretary of the World Bank.

I would also like to welcome the participants seated here today. We have representatives from a number of private sector companies, including banks, law firms, consulting firms, mortgage banks and investment banks. I am also happy to have representatives from the IFC, the World Bank and from a number of US government agencies including the White House, State Department, USAID, OPIC and of course Ginnie Mae.

This roundtable is being held under the auspices of the President Bush's African Mortgage Market Initiative, which he announced in Abuja, Nigeria a little over a year ago. In his announcement the President called for the US government to assist African countries develop mortgage markets. The rational for this focus on mortgage market is compelling. Development of robust mortgage markets result in increased wealth and welfare for households. Development also deepens retail banking and helps create local capital markets. In short, mortgage finance and all related activities contributes greatly to an economy. In developed countries such as the United States, the housing sector and all related sectors contribute over 25% to GDP.

The US government is currently working on 20 projects in nine African countries, including Nigeria. Since the President's announcement the US has over $260 million in firm OPIC loan commitments and has an additional $100 million in loan commitments awaiting approval. USAID has funded a $4 million micro-lending program in Nigeria – with the first loan schedule to be originated by the end of the year. It has also funded over $300 thousand in technical assistance for Southern Africa. In addition to managing the initiative, Treasury, with the help of Ginnie Mae, has undertaken a number of government-to-government technical assistance programs aimed at primary and secondary mortgage market development.

We are here today to talk about how best to develop the Nigerian mortgage market. Nigeria is a country of 137 million with virtually no mortgage market or housing market to speak of. With an estimated housing deficit of over 5 million units, Nigeria desperately needs housing and housing finance.

Today's discussion will focus on a number of aspects of the market including land title issues, mortgage funding, credit risk management, mortgage servicing and the role of government in the market.

I encourage you to also discuss how the expatriate Nigerian population in the United States might be integrated into the Nigerian mortgage market.

The market for expatriate mortgage services could be large as there are currently

over 700,000 Nigerians of working age living in the USA. Tapping these expatriates might help develop the Nigerian real estate and mortgage markets and provide business opportunities for both US and Nigerian companies.

Thank you. I believe that we will have a lively and productive discussion this morning.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

September 28, 2004
js-1999

Treasury Deputy Assistant Secretary Iannicola Launches Financial Education Technical Assistance Center at Credit Industry Conference in Las Vegas

Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr., today introduced a new service offered by Treasury's Office of Financial Education. The Office's new Technical Assistance Center will advise groups or individuals wishing to start or enhance financial education programs in their communities. Iannicola made the announcement before senior credit executives from more than 30 organizations at the fall conference of the Credit Industry Research Council.

During his remarks, Iannicola described the Technical Assistance Center as a place where those with an interest in financial education can receive input on program design and available resources, explore partnerships with other organizations and learn about best practices in financial education. Iannicola also commended those members of the credit industry that have devoted resources to financial education.

"The credit industry is uniquely positioned to provide meaningful education to millions of Americans, and we can help," said Iannicola. "With today's launch of the Technical Assistance Center, Treasury recommits itself to improving financial education in America, and one the best ways to do that is by offering our support and advice to those trying to bring financial education to their communities. By helping financial education programs get started or get better, the center fills an important need in the financial education community."

Iannicola explained that the center can be accessed online at http://www.treasury.gov/financialeducation or by telephone at (202) 622-9372. He said the two goals of the center were to increase the reach and impact of financial education programs nationwide and to lever federal financial education resources in the most efficient way possible. "When we support the expansion of financial education, we increase levels of ownership, of financial security and of consumer protection, and we go a long way toward helping people help themselves" said Iannicola.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 8, 2004
JS-2000

The Honorable John W. Snow
Prepared Remarks: The Toledo Center for Family Business
Toledo, OH
October 8, 2004

Good morning; it's great to be home in Toledo!

I'm proud to have grown up here, and it's always great to come back. Toledo will always be home to me.

Furthermore, I'm delighted to be visiting the Toledo Center for Family Business. I think that family businesses are taken for granted far too often, and it's terrific to see a group of people so devoted to the study of something that is such a powerful economic phenomenon in this country.

When you run a family business, you face challenges that few outside of your world appreciate. From acquiring investment capital – which often means signing up for a new credit card – to resolving conflicts among family members... from managing employees to negotiating contracts with vendors... from paying the taxes bills to paying the insurance bills and puzzling through all those regulations. Your challenges are constant and incredibly varied. And yet you persevere to maintain your status as this country's strongest economic force and premier job creator.

Everyone here today is on the front lines of our country's economic recovery and growth, and I value the work that each of you are doing.

I know that it hasn't been easy. As a manufacturing state, Ohio has recently felt the pain of an economy that was in decline. The citizens of this area have lost jobs. Getting them back to work is a top priority for President Bush, and for me.

We understand that bad economic times hit the Buckeye state hard. And the effort to get your economy on solid footing, to a place where you can expand, grow and create more jobs, is a continuing priority; as the President has often said we will not be satisfied until everyone looking for work can find a job.

Some things we know for certain. Like the fact that new jobs cannot come soon enough for the people who have lost theirs. The question is: where will those jobs come from?

The short answer to that question: the jobs will come from the people in this room today.

That's why the President's goal is to make sure that the work you do, on the front lines of job creation and economic growth, isn't over-burdened by unfair levels of taxation and regulation. We know that, as small-business owners and operators, you simply ask for two things from your government: fairness and freedom.

You seek the freedom to start up a new business venture, to run it and grow it, or to close the door and go fishing if that's what you want to do. You also want to be treated fairly, and you deserve nothing less.

In exchange for fairness and freedom, your unspoken promise to your country and our economy is: job creation and the fuel our economic engine runs on. This is why we've got to keep tax rates low on business owners like you, and on every

American who pays taxes.

An important, ongoing truth of the American economy is this: the government won't choose what jobs are created; entrepreneurs and innovators will. Government's responsibility is to make sure they have the freedom to do so.

That's why entrepreneurs and small-business owners are at the heart of President George W. Bush's economic policies. The President understands that creating an environment in which you can flourish is the essential ingredient in any recipe for economic growth.

Free and fair trade is an important element in this. Ninety-seven percent of all identified exporters are small businesses like yours. Free trade helps you, and it helps to create more higher-paying jobs for American workers by opening new markets for American products and services, bringing lower prices and more choices to American consumers, and attracting foreign companies to invest and hire in the United States. America is economically stronger when we participate fully in the worldwide economy. When 95% of the potential customers for American products live outside the U.S., America must reject policies that would result in economic isolationism. Here in Ohio thousands of workers' jobs depend on trade agreements that enable Ohio-made products to compete in markets around the world. Since the enactment of NAFTA in 1994, Ohio's exports to Mexico have tripled, and last year exports totaled more than two billion dollars. Since the end of 2000, Ohio's exports increased more than any state in the country. Exports are clearly vital to our Nation's economic strength.

The President appreciates that small businesses create two-thirds of new private sector jobs in America. He knows that you employ more than half of all workers, and account for more than half of the output of our economy. As the President often says, what's good for small business is good for America. Because when small business is growing, the American economy is growing.

That's why the President's tax cuts allowed small-business owners like you to keep more of your business income, and encouraged you to invest in the growth of their companies. For example, nearly 860,000 business taxpayers here in Ohio will save money on their 2004 taxes.

Similarly, the tax cuts have allowed individuals to keep more of their income. More than 4.4 million Ohio taxpayers will have lower income tax bills in 2004 thanks to the tax relief.

The results of letting people keep more of their own money, and spend it how they see fit, have helped put our nation on the right track. We've had 12 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day. People are finding new jobs. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children. That said, we are not satisfied.

Our economy has come a long way. When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence.

We are fortunate that our economy is the most open, flexible, adaptive and resilient in the world. Our powerful core elements – small-business owners and entrepreneurs, an outstanding workforce, and the simple fact that we operate as a free market – have enabled us to recover from those very difficult economic times.

Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

How to help our economy right itself when it is in distress is a lesson in American history. We know from long experience that our economy responds best to the very

thing that created it: freedom.

Freedom from excessive taxation. Freedom from abusive, frivolous lawsuits and of course freedom from terrorist assaults.

As I said before, small firms like yours also respond to fairness. That's why the President wants to bring fairness to the purchase of health insurance by allowing you to pool your purchasing power to buy your policies anywhere in the U.S., putting you on a better footing with bigger businesses – that's only fair. The President believes in small businesses, and the spirit of enterprise it represents. He wants you to have a level playing field. That's why he has worked so hard to bring the perspective of small business to government regulations.

When freedom, fairness and American entrepreneurs are combined, the end product is jobs and growth.

We have plenty of work to do – in Ohio and across America. But if we continue on the path of freedom and making sure individuals, entrepreneurs and family businesses have an open and fair environment in which they can work and grow, our best economic days will remain ahead of us and I am optimistic about our future.

Thank you so much for having me here today; I look forward to our discussion.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 7, 2004
JS-2001

The International Implications of October 1979:
Towards a Long Boom on a Global Scale
Remarks Presented at the
Reflections on Monetary Policy Conference
25 Years After October 1979
John B. Taylor
Under Secretary of Treasury for International Affairs
Federal Reserve Bank of St. Louis
October 7, 2004

I am pleased and honored to be here to share my thoughts on the momentous event that occurred on October 6, 1979, and I thank Bill Poole, Bob Rasche, and Dan Thornton for being such gracious hosts. I will argue tonight that the masterful decisions made that day represented a critical first step in reasserting American leadership in economic policy around the world. This leadership, which continues today, has benefited not only the United States but also the entire international community. It has brought forth policies that have increased price stability, lessened fluctuations in output and employment, and promoted longer, more sustained, economic expansions around the globe, while restoring the dollar as a stable reserve currency.

Anyone who was more than just a casual observer of economic policy making at the time realized that the measures announced on October 6 represented a major change in the conduct of monetary policy. If pursued to their conclusion, the measures would break the back of a vicious cycle of accelerating prices. If translated into new lasting principles of monetary policy, the specific measures would represent a true "regime" change. However, armed with monetary policy models that incorporated both inflation momentum and rational expectations, I also realized that tighter control of money was going to be associated with considerable economic strain for a period of time--not as bad or as long lasting a strain as some pessimists had predicted, but a severe strain nonetheless. This would require exceptional fortitude by the Federal Reserve and broad support from elsewhere in the government.

Events Preceding October 6, 1979

It is difficult today to appreciate how desperate the economic situation had become 25 years ago. It is difficult because the United States has enjoyed a prolonged period--a long boom--of low inflation and long economic expansions since the early 1980s. But by 1979, inflation had moved up to a double-digit pace and threatened to spiral higher. The economy was showing signs of weakness, and many were predicting recession and rising unemployment. The mood in financial markets was becoming one of deep gloom, as the dollar was sinking and interest rates were soaring. Surveys showed that inflation expectations were climbing to unprecedented, double-digit levels, and public opinion polls were consistently indicating that inflation was the number one worry.

Needless to say, confidence in U.S. macroeconomic management had been plunging both at home and abroad, and no doubt fallen to a post World War II low. For its part, the Federal Reserve had been setting ranges for money growth that it thought to be consistent with bringing inflation down. However, it had been overshooting or pressing the upper limits of those ranges regularly. To many observers, the Fed's difficulty in keeping the monetary aggregates within the announced ranges owed to its operating procedures that involved actions to move

the federal funds rate that were too little and too late, leaving the Fed behind the curve.

On August 6, 1979 a new chairman of the Fed--Paul Volcker--took office. At first, the arrival of Volcker came as a relief to market participants. Through his public record and statements, Paul Volcker was seen to challenge the common wisdom of the time that inflation had favorable effects on employment. Instead, he believed that inflation was a corrosive force that undermined economic performance. His views were consistent with then new advances in macroeconomics that pointed to the futility of trying to exploit an inflation-unemployment trade-off, and perhaps he was influenced by such views. In any case many market participants hoped that he would succeed in bringing inflation down. He was experienced having served for four years as president of the New York Fed and five years as Under Secretary of the Treasury.

However, the confidence of market participants in Volcker's ability to lead the Fed on a disinflationary path was shaken on September 18. On that day the Federal Reserve Board approved a discount rate hike of 50 basis points to accompany an FOMC decision to tighten policy. But the vote, publicly announced, was very close, only 4 to 3; and commentary that followed suggested that the chance of further tightening was all but gone. With money and prices accelerating, the situation looked bleak.

October 6, 1979

What followed was one of the most masterful efforts in history by the head of a central bank to deal with a growing national and international problem. In the weeks after the September meeting, Paul Volcker put together a package that received the support of every member of the Board and every Reserve Bank president. It contained three key items: First, a full percentage point increase in the discount rate; that appealed to those believing the situation called for another traditional dose of monetary medicine. Second, a marginal reserve requirement on managed liabilities of large banks; that appealed to those who wanted to take action to restrain the surge in bank lending. And third, the new reserve-based operating procedures.

The new operating procedures allowed the Fed to say, with some legitimacy, that it was the market, and not the Fed, that was setting the level of the funds rate. The procedures also appealed to those who believed that a reserve-based operating procedure would result in more timely and sizable interest rate responses to inflation, which would help the Fed stay in front of rather than fall behind the inflationary curve. In retrospect that may have been the most lasting feature of the October 1979 measures. The procedures also offered more two-way flexibility for prompt downward movements in the federal funds rate, which appealed to those who voted against the September 18 discount rate hike, fearing the economy was already sliding into recession.

The Aftermath of October 6, 1979

The sustained monetary restraint called for by the operating procedures implied a protracted period of economic weakness. It called for a degree of fortitude by Chairman Volcker and his colleagues that had been highly atypical of central banks in the late 1960s and 1970s. This had to have been a very lonely and nerve-wracking period for the Federal Reserve. Stories abound about the daily mail deliveries of scraps of two-by-fours from the ailing construction sector with inscriptions begging for relief, and about angry farmers who circled the Fed building on Constitution Avenue, not to mention the countless letters protesting high interest rates.

Chairman Volcker and his colleagues were resolute for the next couple years and their efforts, along with subsequent ongoing vigilance to prevent the economy from overheating, paid tremendous dividends for the United States. Core CPI inflation, which surpassed 11 percent in 1979, fell to under 5 percent in 1982. It has since been brought down further and held down under Chairman Alan Greenspan's leadership. With this, inflation expectations have marched down to very low levels, while public opinion polls have shown that inflation worries have moved completely off the radar screen.

Knowledge and Leadership

The October 6 events and their immediate aftermath provide a wonderful case study on implementation of economic policy in practice. In my view, both knowledge and leadership are essential if one is to get the job done. Simply knowing the economic theory or proposing the economic reform is not enough. The Fed, under Chairman Paul Volcker, understood the true seriousness of the inflation problem. They and many others in academia and elsewhere understood the economic forces that were causing the rising inflation that had plagued the United States through much of the 1970s.

But implementing the solution required leadership and skillful coalition-building. As I have emphasized, the measures taken on October 6, 1979 were designed to receive wide support at the FOMC, and they got wide support. Implementation also required a high level of technical knowledge and good operational management within the Fed staff - especially given that the lagged reserve requirements in place at the time were not well suited for reserve-based monetary control. Moreover, implementation required staying the course for several years through very difficult times, and this is where support from elsewhere in the government--both the Administration and Congress--was essential.

International Impacts and the Spread of Knowledge and Leadership

The United States was not the only country struggling with inflation in the late 1970s. Inflation had reached double digits in the United Kingdom, Italy, France, and Canada and was even high in Germany. The policy shift by the United States was followed by the United Kingdom, which adopted a monetary targeting framework in March 1980.[1] Many of the other countries, however, held to the view that monetary policy was ineffective in controlling inflation and focused on incomes policies to restrict the growth of wages and prices. These differences in views were evident at the Executive Board of the IMF.[2] Over time, however, this shift in focus of monetary policy occurred in all the developed economies and also in many emerging market and developing economies.

To understand this diffusion of knowledge, note that two lasting monetary principles emerged from the specific monetary measures of October 6, 1979, even though the measures themselves ended in 1982. It was these principles that spread around the world.

First is a commitment to price stability. A central bank needs to be committed to price stability, and this view is now widespread. Indeed, according to a recent survey of 94 central banks, 96 percent have price stability as a statutory goal.[3] A milestone in this area occurred in 1989 when New Zealand adopted legislation that required the central bank in consultation with the government to set an inflation target, a change that was followed by other countries. By 1998, fifty four central banks had set inflation targets.[4]

Second is the focus of central banks on more systematic and transparent procedures for setting the policy instruments in a way that will bring about the goal of price stability. Both theory and empirical studies indicate that monetary control is easier if monetary policy objectives are seen as credible, enabling economic agents to adjust their behavior to those objectives; and policy transparency has enhanced credibility. In comparing the pre and post October 1979 periods, one finds that monetary policy in the United States has become more responsive both to changes in inflation and changes in output. During the late 1960s and the 1970s, a 1 percentage point rise in the rate of inflation resulted on average in a less than 1 percentage point rise in the federal funds rate. Since then, the federal funds rate has increased by more than 1 percentage point for every 1 percentage point rise in inflation. This difference is of fundamental importance. If the federal funds rate rises by less than the inflation rate, real interest rates decline. It was this failure to focus on real interest rates that allowed inflation to accelerate in the 1970s. This greater responsiveness is not unique to the United States but also has been observed in other countries.[5]

[1] Goodhart (2004) notes that the Bank of England was considering changing its operating procedures in 1979.
[2] Boughton (2001).
[3] Mahadeva and Sterne (2000).
[4] Mahadeva and Sterne (2000)

[5] Clarida, Gali and Gertler (1998).

The focus on price stability and on accompanying policy procedures has resulted in a sustained decline in inflation throughout the world. The developed economies showed a declining trend after 1980. Inflation in these economies fell from an average of 13 percent in 1980 to 2 percent in 1997, and has remained close to 2 percent since then--tracking closely the experience in the United States.

Inflation in the emerging markets remained persistently high well after the drop in the developed economies. By the mid 1990s, however, the changes in the monetary policy process had become more common throughout the world. The deceleration in inflation has been amazing. As recently as 1994 inflation in the emerging markets averaged 65 percent; over the last four years, in contrast, it has been around 6 percent.

As inflation has declined so has its variability. In the developed economies inflation variability, as measured by its standard deviation, fell from 3.4 percent in the 1980s to 1.3 percent in the 1990s and so far this decade is less than 1 percent. In the emerging markets the variability of inflation fell from 24 percent in the 1990s to less than 1 percent this decade. There is now little difference between the variability of inflation in the developed and emerging economies. This remarkable accomplishment is a direct result of the changes in the monetary policy process that began 25 years ago.

Reduction in Output Variability and the Long Boom

Impressive as these results are, they are only one part of a good story. At about the same time that the Fed was implementing the famous October 6 measures, I published a paper with an estimate of an efficiency frontier between the variability of inflation and output, noting that, with policy in place up until that time, the United States was off the frontier.[6] Looking at the evidence, it is clear that since then we have either gotten closer to the frontier or that the frontier itself has shifted in a favorable direction. In other words output variability has declined along with inflation variability.

In a Homer Jones Lecture I gave several years ago, I referred to this period of low output volatility in the United States as the "long boom." The "great moderation" is another term that has been used to describe the same phenomenon. Since 1955 there have been eight recessions, as determined by the NBER. Two things stand out about the recent recessions. First, they were relatively mild. The average decline in output from peak to trough in the previous six recessions was 2.0 percent. Output in the 1990 recession declined by 1.3 percent. In 2001, output rose slightly (0.5 percent) from (the quarter of the) NBER peak to (quarter of the) trough. Second, these two recessions were relatively short; both lasted less than eight months. The six previous recessions lasted slightly more than 11 months. Equally important, the past two expansions were the longest peacetime expansions, over the entire NBER measurement period that began in 1854. The most recent expansion lasted 120 months, surpassing by 14 months the Vietnam War era expansion of the 1960s.

The same phenomenon is found in other counties. In the developed economies as a whole the variability of the real GDP (measured as a deviation from trend), fell from 1.8 percent in the 1980s to 1.0 percent in the 1990s and has remained steady since then.[7] The experience of the United Kingdom is particularly impressive. Since 1992 the United Kingdom has not had a single quarter of negative output growth, as measured by the quarter-to-quarter changes in real GDP. Over the last 4½ years output volatility has only been about 50 basis points.

[6] Taylor (1979

In the emerging markets, the decline in inflation is still recent, but some emerging market economies have already seen a lowering of the variability of output. In Chile output variability declined by half in the 1990s. In Brazil, output variability has begun to decline too. I am optimistic that given continued progress by the emerging markets in maintaining low and stable inflation, these economies will experience a longer boom over the course of this decade.

Several arguments are often cited for the improvement in the output-inflation

variability frontier. According to the "good luck" argument, the number and magnitude of shocks hitting the world economy has declined. According to the "structural change" argument, supply shocks have a less pronounced effect on the economy as a result of changes in the structure of the economy. Some changes often cited include an increase in the service sector's share in the economy and improvements in inventory management.

I prefer a policy explanation closely connected to the monetary policy changes that began in October 1979. Reducing substantially the boom-bust cycle has been an important contributor. Recessions in the post-war period typically have been preceded by rises in the rate of inflation. Thus, by keeping inflation low monetary policy has reduced the likelihood of recessions. Moreover, ending inflation and keeping inflation expectations low has given central banks the credibility to address adverse supply shocks. In the past, in the face of an oil price shock, central bankers were faced with the vexing choice of whether to cushion the loss in output or resist the upward pressure on prices. If they pursued the former, they risked dealing with higher and more entrenched inflation expectations. In contrast, around the globe today, people have become more confident that central banks are not going to allow such shocks to feed into more long-term inflation. As a result, central banks can respond more to the output and employment effects.

It is informative to contrast the discussion of policy responses to the recent run-up in oil prices with discussions that took place in the early 1990s. At that earlier time, there was the widespread view that central banks had to steer a narrow course and provide resistance to the price-level effects of the shock so as to avoid reigniting inflation expectations. Today, the anti-inflation credibility earned over the past couple decades has served to anchor inflation expectations and give central banks more leeway to cushion the output effects.

. ***Conclusion***

In sum, reflection on the international implications of the momentous event of October 1979 in the United States reveals powerful lessons. I am convinced that the hard-fought gains from new policies that began to be adopted then will continue to pay large dividends in the future. As long as monetary policymakers retain the lessons learned, the long boom that more and more countries are experiencing around the world will be sustainable at a global scale. By remaining vigilant against inflation, central bankers will be able to keep inflation expectations low, giving them more scope to counter shocks. And the more stable economic and financial environment will foster more productivity-enhancing business decisions.

I am optimistic that policymakers in emerging market and developing countries are learning these lessons as well. Given the hyperinflation and economic instability these countries have experienced in the past, the rewards from better policy are huge. During the last few years, I have worked closely with policymakers in many countries. We have consistently supported these leaders as they implement policies that promote price stability and transparent systematic procedures for adjusting policy instruments. I am convinced these principles will bring substantial long-term benefits to this part of the world, too.

[7] Trend output is calculated using a Hodrick-Prescott filter.

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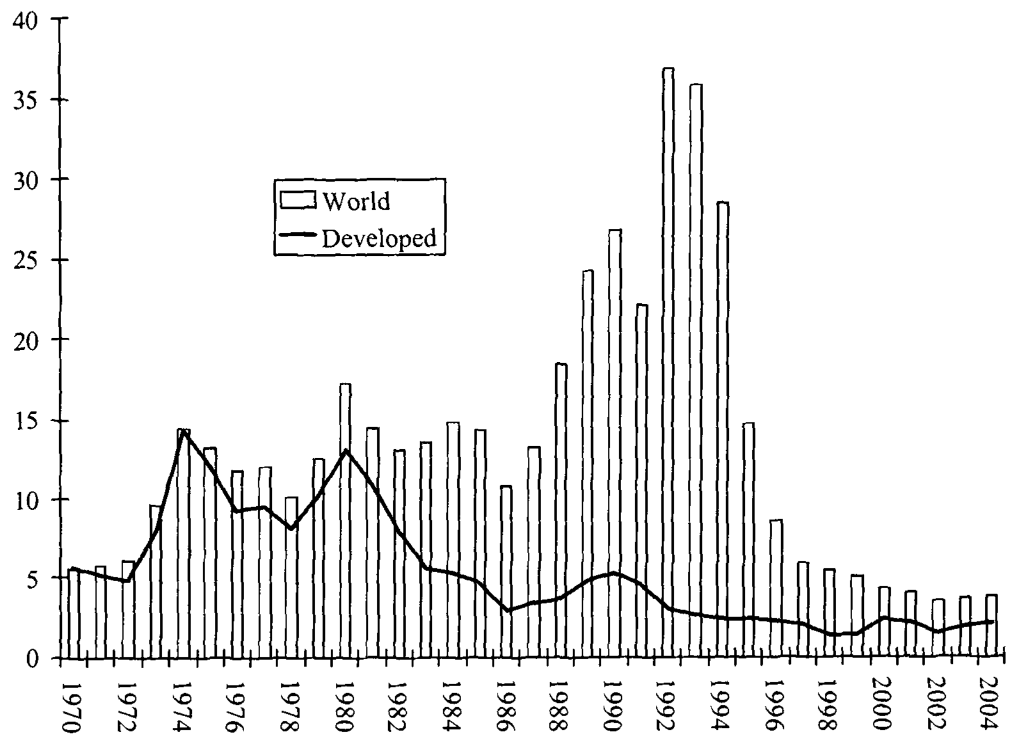
REPORTS

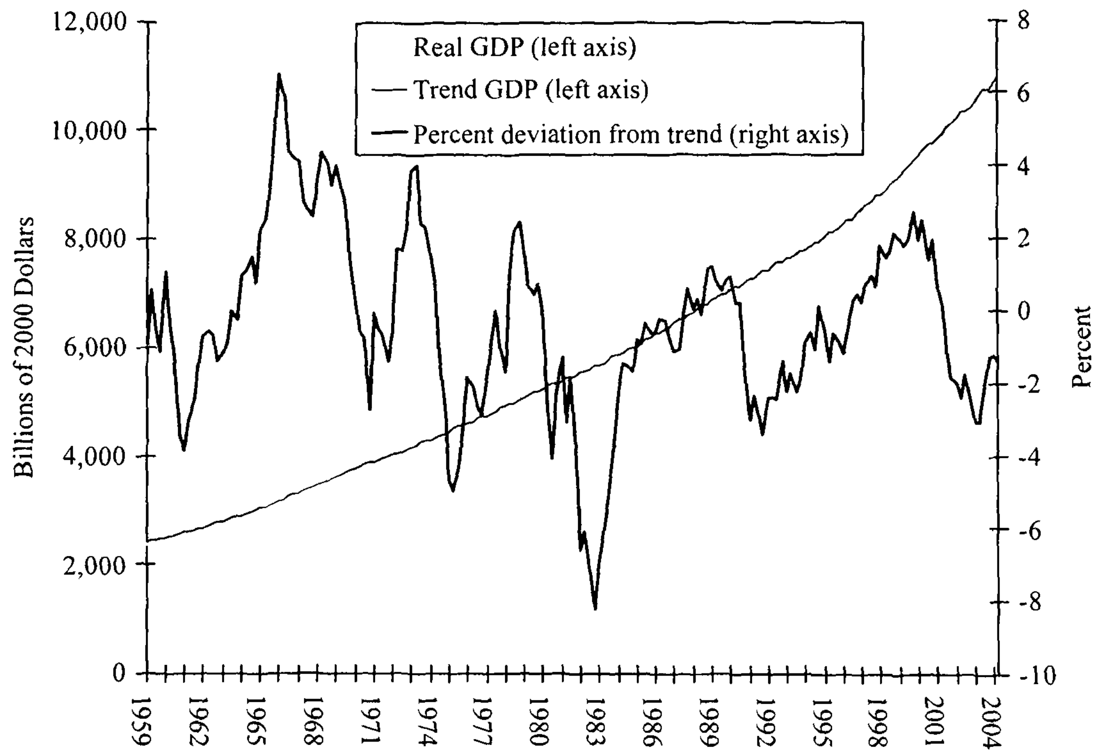
- Taylor Charts

Figure 1. Consumer Price Inflation (1970-2004)



Source: IMF, International Financial Statistics and World Economic Outlook.

Figure 2. U.S. Real GDP (Percent deviation from trend)



Source: Bureau of Economic Analysis and Congressional Budget Office.

Figure 3. United Kingdom Real GDP (Percent deviation from trend)

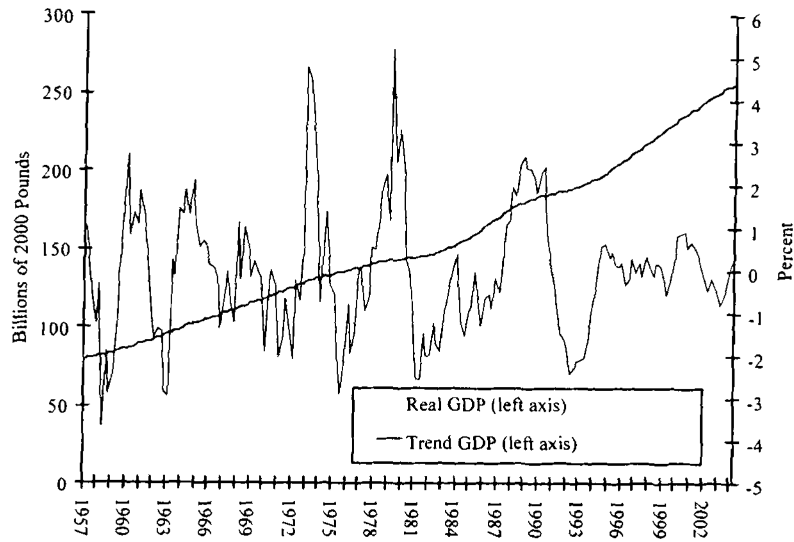


Figure 4. Brazil Real GDP (Percent deviation from trend)

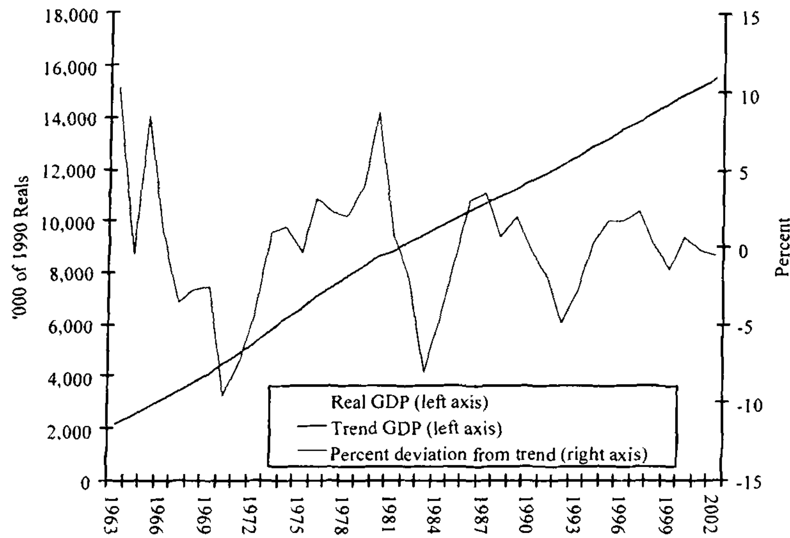
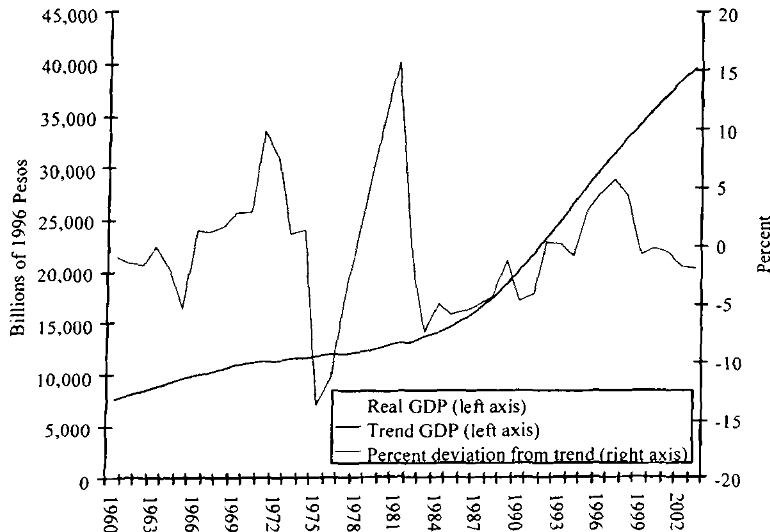


Figure 5. Chile Real GDP (Percent deviation from trend)



Source: IMF, International Financial Statistics and U.S. Treasury.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 8, 2004
JS-2002

Statement of Secretary Snow on September Employment Report

The steady increase in jobs, which we've seen now for thirteen consecutive months, continued in September. Since August of last year, America has added more than 1.9 million workers to the payroll, including the addition of 96,000 last month and the upward revisions announced today by the Labor Department showing that job growth has been stronger than previously reported. The unemployment rate of 5.4 percent remains under the average of each of the past three decades.

Today's employment report shows the steady creation of jobs fueled by the pro-growth policies and strong economic leadership of President Bush. While we're encouraged with today's report, we're not satisfied. The President has made clear his continuing commitment to keep this economy on an upward path of economic growth and job creation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 8, 2004
JS-2003

Debt For Nature Agreement to Conserve Jamaica's Forests

The Governments of the United States of America and Jamaica, together with The Nature Conservancy, recently concluded agreements to reduce Jamaica's debt to the United States by nearly $16 million dollars. In return, the Government of Jamaica has committed to providing these resources over the next twenty years to fund projects to conserve and restore important tropical forest resources on the island nation of Jamaica.

The agreements were signed by U.S. Ambassador to Jamaica Sue Cobb, Jamaican Minister of Agriculture Roger Clarke, and The Nature Conservancy Country Director Terence Williams. The agreements were made possible through a grant of $6.5 million from the U.S. Government and a contribution of $1.3 million from The Nature Conservancy.

Jamaica has unique flora and fauna composed of a high percentage of endemic species, including 28 percent of its flowering plants and 25 breeding bird species. A growing number of plant and animal species are identified as vulnerable to extinction, critically imperiled or rare. The aim of this debt-for-nature swap is to help Jamaica in its fight to safeguard the valuable forests and rich biodiversity in several areas. This includes areas such as the Blue and John Crow Mountain Forest Reserve/National Park, home of the island's tallest peak, the endangered Giant Swallowtail Butterfly and a number of endemic orchids. It also includes the Portland Bight Protected Area, the only place on the island where the Jamaican Iguana, once thought to be extinct, is found in the wild.

The Tropical Forest Conservation Act of 1998 was first funded in 2000 to provide eligible developing countries opportunities to reduce concessional debts owed the United States while generating funds to conserve their forests. Jamaica is one of eight countries to benefit from the Act so far; other countries are Bangladesh, Belize, Colombia, El Salvador, Panama, the Philippines, and Peru. Together these agreements will generate over $95 million to protect tropical forests over the next 10-25 years.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 8, 2004
JS-2004

Statement of Anna Escobedo Cabral
Nominee for United States Treasurer
before the Committee on Finance
United States Senate

Thank you, Chairman Grassley, Ranking Member Baucus, Senator Hatch, and Members of the Committee. I am honored to have been nominated by President George W. Bush to serve as U.S. Treasurer, and grateful for the opportunity to appear before you today in consideration of that nomination.

If confirmed, I look forward to working closely with this Committee, as well as all Members of the Senate and House of Representatives, on issues related to the office of the Treasurer.

Before proceeding further, please allow me a moment of personal privilege to introduce those members of my immediate family who join me today: my wonderful husband, Victor, and two lovely daughters, Viana and Catalina. Our son, Victor Christopher, our eldest daughter, Raquel and her husband, David Sours, are unable to attend, but I know they are here in spirit, as are the many members of my extended family.

I am a third generation Mexican American and first generation college graduate. My family came from Mexico in the early 1900s in search of the American Dream. Like so many others, they labored to build the railroads, factories, farms, and cities of this great nation. Four generations on my father's side toiled in California's agricultural fields. I am the manifestation of their dreams and aspirations – that their hard work would earn a better life for their children. I remain eternally grateful to them for the values they instilled in me – for our faith in God and country, a sense of personal responsibility, and a commitment to family and community. This nomination honors each of them.

None of us stands alone. We rest on the shoulders of those who have gone before. We are expected to repay their sacrifices by working to ensure that our children and our children's children inherit a safer, better world.

This great nation serves as a beacon for freedom and opportunity in the world. Among its hallmarks are a free enterprise system, solid financial markets, and sound banking and monetary systems. As Treasurer I would seek to continue and contribute to the great work of the President and the Treasury Department by ensuring that our coin and currency systems remain safe, that anti-counterfeiting measures are strengthened, that our Savings Bond Programs provide greater investment opportunities, and that financial literacy grows at all levels, for all generations.

I am eager to contribute to the work of the Department and the office of the Treasurer. I consider it a privilege and honor to serve the public. I will work to the best of my abilities to maintain a strong working relationship with the Committee, uphold the duties of the office, and assure accountability within the Department.

Thank you for your time. I would be pleased to answer any questions.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 8, 2004
js-2005

Remittance Corridors and Economic Development:
A Progress Report on a Bush Administration Initiative
John B. Taylor
Under Secretary of Treasury for International Affairs
Remarks Presented at the
Payments in the Americas Conference
Federal Reserve Bank of Atlanta
October 8, 2004

I am delighted to be here in Atlanta to join this distinguished group of experts on the payments system, which is so important to the efficient functioning of the economy. Your work today is having a profound impact on a top priority of the Bush Administration: the efficient and secure flow of remittances from developed countries to developing countries and the role of these remittances in economic development. The efficiency of cross-border payment systems is a major factor in determining the cost and quality of remittance services. The remittances, in turn, have a substantial impact on economic development, poverty reduction, and financial stability around the world.

Because of the growing role that remittances play in the world economy, the Bush Administration, and the U.S. Treasury in particular, embarked several years ago on a multifaceted effort to enhance the environment for the provision of remittance services. We have worked this priority at every appropriate opportunity and venue. We began in 2001 with the Partnership for Prosperity with Mexico, and we have already seen a significant reduction in the cost of remittances from the United States to Mexico. A more recent example is the goal established at this year's Summit of the Americas in Monterrey to halve the cost of sending remittances by 2008, from 12 percent to 6 percent, with the Multilateral Investment Fund of the Inter-American Development Bank taking an important role based on their long experience in this area. The APEC (Asian Pacific Economic Cooperation) remittance initiative is another example.

And this past June there was an agreement made here in Georgia at Sea Island by the leaders of the G8 countries to take actions to improve remittance transfers; this was, in my view, one of the most significant and lasting initiatives announced at that summit.

My hope is that you leave this conference with a heightened sense of the importance and urgency of your work. Without efficient electronic retail payment systems, the prospects for lowering the cost, and increasing the efficiency and accessibility of remittance services would be dim.

In my remarks, I would like to discuss (1) why the Bush Administration cares so much about remittances; (2) the impediments to the efficient handling of remittance flows with existing cross-border payment systems; (3) progress already achieved; and (4) what more we are doing to facilitate and stimulate the development of innovative, cost effective remittance services.

Why Do We Care about Remittances?

Remittance flows, once largely ignored by economists and policy makers, have grown over the past decade to the point where they play a huge role.

Over the past two years alone, remittance flows to developing economies jumped by 20 percent to nearly $100 billion dollars and likely will keep growing.

They are three and half times net official flows. [KK1]

· These estimates do not include unrecorded flows, much of which travel through informal, or even underground, financial channels; these are thought to be at least half the magnitude of recorded flows.

· Remittance flows to Latin America comprise almost a third of the world's recorded flows and for the first time edged out net foreign direct investment flows to the region.

· In some countries, remittances as a share of GDP are substantial; for example, this share is 15 percent in El Salvador and 35 percent in Haiti. About 28 percent of households in El Salvador receive remittances.

Remittances serve as an important means of reducing poverty. Remittances are private sector transfers that go directly to the poorer, economically isolated segments of the population. With no government involvement, these flows go directly to those who most need them. Often these flows are critical for the survival of the receivers, and under the right circumstances can be used by the sender and/or recipient to break the grip of poverty. Studies have shown that remittance recipients are more likely to send their children to school, have more access to health care, and are more likely to start small businesses. Product options introduced recently in some remittance services allow remittance senders to directly pay for a house or to save money in a bank account from overseas.

Remittances can also serve as a catalyst to financial market deepening. According to a recent survey, 33 percent of Mexican remittance recipients report having a bank account, which is significantly higher than the 22 percent reported for the general population. Credit unions in Central America have reported that remittance receivers are more likely to open accounts, aided by financial products tailored to their needs.

Often households receiving remittances never had sufficiently liquidity to merit consideration of a bank account; with remittance flows they are allowed the possibility of accumulating savings, accessing other financial service products such as loans and insurance, and establishing a credit history.

Impediments to Remittance Flows with Existing Cross-Border Payment Systems

While domestic retail payment systems can be extremely efficient, cross-border payment mechanisms are generally far less efficient, especially for small retail payments such as remittances. It is a Treasury priority to look for ways to address the impediments to efficiently sending small payments across borders.

Competition, technology and the high daily volume of business have combined to spur the development of efficient, electronic, domestic payment systems in some of our economies. For example, in the United States, banks can rely on their own internal systems, the existing national large-value systems such as Fedwire and CHIPS, the newly created Continuous Linked Settlement Bank (CLS), or the retail Automated Clearing House (ACH) system and checks to execute payments.

As a result, the fees charged by domestic payment systems to the financial institution and the speed, precision and reliability of the service provided are highly competitive. The retail customers of financial institutions in the U.S. can send funds to an individual in virtually anywhere else in the U.S. for a nominal fee.

In contrast, existing cross-border payment systems generally lack efficient, automated links for retail transfers. Completing a single transaction can involve a multi-layer series of correspondent bank transactions that raise the cost of the transaction and add to the time it takes to get the funds to the ultimate recipient. In order for an individual to process a single payment through these correspondent cross-border arrangements, hand entry of information is required at various points of the transaction.

Establishing and maintaining a correspondent bank network is expensive. For institutions that hold accounts with one another or with multiple banks,

correspondent services can be automated – using SWIFT messaging or internet access – and inexpensive. However, for institutions that lack such relationships or for individual account holders, correspondent banking services can be quite expensive. The cost of using these correspondent services, in combination with the costs to the originating and recipient institutions of hand processing information result in the high fee, typically in the range of $30, for individual customers to send money (wires) via banks from one country to another. Such a fee, though hardly trivial, is still relatively insignificant for a large value transfer.

The average remittance to Latin America is under $300, making the fee for using correspondent banking services a sizable chunk of the total amount sent. As a result of the lack of an automated link for cross border retail payments and, in many instances, limited competition, the cost to the customer of sending funds across borders can be dramatically higher than sending it across the United States. For example, I can send $150 from my home in DC to a friend in California for less than 30¢, using online banking.

But if my friend moves to Peru, I would have to spend close to $30 to send him $150, unless he happens to reside near and bank at one of six branches of a particular U.S. bank and I also happen to have an account at that same U.S. bank. In the latter case the fee would be $10. Obviously, 30¢ is a much cheaper proposition than $30. And just as obviously, a $30 fee on a $10,000 transaction is a far smaller percentage than a $30 fee on a $150 transaction.

How Remittance Corridors are Already Changing

Fortunately, the situation is changing. Partly as a result of efforts by the U.S. Treasury, other domestic and foreign policy makers and development institutions (in particular the Inter-American Development Bank's Multilateral Investment Fund), a number of new private sector initiatives and product offerings have emerged to service remittance markets. In a handful of remittance markets, also known as remittance corridors, new low cost, accessible and efficient remittance services have been introduced. As a result, the fees for sending remittances through those corridors have dropped sharply.

The introduction of these new services -- or remittance products – has been spurred on by the confluence of changes in regulatory environments, technological innovation and changes in perception of the size of the market. Changes in the regulatory environment are often needed for private-sector participants to gain access to or be able to serve the relevant segments of domestic markets. Innovation and automation in payment systems are necessary to reduce the cost of handling small cross- border transfers. And finally, financial institutions have to believe that remittance flows will be large enough to justify the expense of developing payment systems that can communicate across borders, or even to develop products that can use existing payment systems such as credit card and/or ATM products.

But in the final analysis, technological innovation in payments systems to facilitate cross-border transmission is key.

In order to appreciate the role of technology in remittance services, it is useful to think of a single remittance transaction as having three components: [1] the initiation of the transfer or the collection of the funds, i.e., the point at which the customer sends the money; [2] the actual transfer of the funds and the instructions from one country to another via a payment system; and [3] the delivery of the funds to the recipient. The technology, or instruments, employed to do the first and third component of the transaction are visible to the sender and/or recipient, and include, for example, cash, ATM cards, store of value cards, and direct bank account deposit. As you know, the technology, or payment system, used to actually transfer the funds is usually invisible to the client.

In the creation of innovative remittance services, existing instruments to collect and deliver the funds, such as ATM cards, have been used by the remittance service providers with a variety of cross-border payment systems. For example,

- Some financial institutions have extended the reach of their internal electronic proprietary payment systems to their overseas branches, and coupled that payment system with an account-to-account collection and

delivery system. Citibank has deployed such a service for the U.S./Mexico corridor. Citibank customers can now send money from their Citibank account in the U.S. to a Citibank account in Mexico for $5.

- Existing proprietary cross-border payment system operators, such as VISA, have developed remittance specific products and services which member financial institutions can use to offer remittance services. Some banks are now offering VISA debit card based remittance services. With this service, the recipient receives a VISA debit card which she/he can use at any retail outlet than accepts VISA. The sender can add money, that is, recharge the card, from the States. This service does not necessarily require access to a bank account on either end.
- There also have been various new initiatives involving proprietary cross-border payment systems developed by financial institutions or organizations. One example is the initiative by Vigo and the World Council of Credit Unions (WOCCU), which enables the sender to send money through US credit unions or Vigo offices for a low-cost fixed fee to credit unions and banks in receiving countries. It is not necessary for the recipient to have an account, but with an account, ATM machines can be used to retrieve the funds.

Looking ahead, international ACHs, such as the recently linked U.S./Mexico, U.S./Canada, and US/Europe ACHs, can offer even more efficient and cost effective platforms for the transmission of remittances across borders.

When the regulatory and technological conditions for more efficient remittance services converge, the result can be dramatic rise in competition and a resulting sharp drop in the cost of sending payments between economies. There is no better illustration of this effect than the transformation of the U.S./Mexico remittance corridor, where the fees have dropped over 60 percent since the end of the 1990s.

What We Have Done

Against this background, the U.S. government has embarked upon a multifaceted global remittance effort to enhance the environment for the provision of remittance services. We are focusing our efforts on six broad areas:

[1] To promote more competition in remittance services, we have undertaken outreach with the private sector to underscore the potential of this market, identify regulatory impediments to remittance services and eliminate anti-competitive practices.

[2] To enhance the quality and cross-country comparability of remittance data, we are encouraging the formation of an expert working group to develop guidance for countries on how to gather and report data on remittance flows.

[3] To ensure a level playing field for a wide range of financial institutions, the international standard setting bodies have been asked to develop prudential guidelines for the regulation of remittance service providers.

[4] To strengthen the financial infrastructure for electronic transmission of remittances, we are working with bilateral and multilateral partners on how to improve financial institutions, build strong domestic payment systems, and lay the ground for eventual cross-border links. This involves outreach with the private sector and collaboration with the Federal Reserve, among other activities.

[5] To bring more remittance flows into the formal financial sector, major financial literacy efforts have been implemented. In the United States, the FDIC, the Federal Reserve, plus Citibank and others are undertaking major educational efforts throughout the United States. For example, FDIC offers its Money Smart Training program, a train-the-trainer tool available in four additional languages (Spanish, Chinese, Korean, Vietnamese) targeting key immigrant communities.

[6] To make sure remittance channels are not abused by criminals or terrorists, we are working with the IMF, World Bank and FATF to enhance country compliance with anti-money laundering and counter terrorist financing standards. It is in all of our interests to make formal channels more efficient and attractive for users so that legitimate flows need not flow outside of these formal institutions.

As I already mentioned, these efforts are being carried out via a series of bilateral and multilateral engagements with other countries. To summarize:

· Under the Partnership for Prosperity, the United States and Mexico have worked closely together to promote competition, expand financial literacy, and strengthen the payment system links. The centerpiece of this effort has been the development of the ACH system by the Atlanta Fed and the Bank of Mexico, creating a connection between the retail interbank payment systems of the two countries. We owe a debt of gratitude for this accomplishment.

· Under the APEC Remittance Initiative, the APEC economies have undertaken a regional effort to examine economic and institutional factors that contribute to the use of informal, rather than formal, channels for remittances. Significant headway has been made in raising public and private sector interest in the Asian remittance corridors.

· The G-8 leaders committed to work to enhance efficient remittance services. Work to improve data on remittance flows and develop international guidelines for the prudential regulation of remittance service providers is being launched.

· Under Summit of the Americas initiative, Treasury and other U.S. agencies will begin working intensively with pilot countries to identify the impediments in the relevant bilateral remittance corridor and implement a strategy to address those impediments.

Concluding Remarks

Today's conference supports the Bush Administration's objectives by emphasizing the critical role of cross-border payment systems in the provision of cost effective remittance services. By bringing together the technical and policy experts on payment systems and remittances, this conference should lay the foundation for significant progress.

While creating linked cross-border payment systems--such as the ACH between the United States and Mexico--will not remove all impediments to the use of formal financial systems for remittances, it will substantially reduce the cost and time involved in processing such transactions for those institutions with direct or indirect access to those linked payment systems. These impediments involve increased financial literacy, improving the regulatory framework, competitiveness of the market, and the physical infrastructure of the banks in the receiving countries.

Collaborating to harmonize payment systems and work towards connecting them is an ambitious and long-term goal. But as we move toward this goal, we will be contributing to the smoother, and hopefully less expensive, flow of remittances. Working towards these goals we can all contribute to strengthening our own domestic financial infrastructure so that this infrastructure can eventually be linked. We plan to continue to work to make these remittance transactions more efficient, accessible, and less expensive.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 8, 2004
JS-2006

MEDIA ADVISORY
Secretary Snow to Visit Ohio Next Week to Discuss U.S. Economy

Treasury Secretary John W. Snow will visit Mansfield, Lima and Ada, Ohio on Monday, October 11 and Cleveland, Ohio on Tuesday, October 12 to meet with local business leaders and students to discuss the President's efforts to strengthen the economy and create jobs. On Monday, he will be joined by U.S. Congressman Michael Oxley of Ohio.

"As a result of the President's economic leadership, we have overcome a recession and seen 13 straight months of job creation, totaling more than 1.9 million new U.S. jobs since August 2003," said Secretary Snow, a native of Toledo, OH. "Ohio has gained new jobs this year, and the President's tax reform policies have ensured that more than 4.4 million Ohio taxpayers will have lower income tax bills in 2004."

During this trip to Ohio, Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

Recent indicators show that President Bush's economic policies continue to move the economy forward. According to the Labor Department, the national unemployment rate was 5.4% in September – down 0.9 percentage point from a peak of 6.3% in June 2003 and the lowest rate since October 2001. At 5.4%, the unemployment rate is below the average of the 1970s, 1980s, and 1990s. Employment over the last year was up in 47 of the 50 states and the unemployment rate was down in all regions and in 45 of the 50 states.

The following events are open to the media, which must present media credentials or photo ID:

Monday, October 11

Mansfield-Richland Area Chamber of Commerce
Holiday Inn
116 Park Avenue West
Mansfield, OH
8:00 am EDT
**** Media should arrive by 7:30 am**
**** There will be a brief media availability immediately following the event**

Lima Rotary Club luncheon
Lima Rotary Club
Allen County Veterans Memorial Civic and Convention Center
7 East Town Square
Lima, OH
12:00 pm EDT
**** Media should arrive by 11:30 pm**
**** There will be a brief media availability immediately following the event**

Remarks to Ohio Northern University Business Students
James F. Dicke Hall
Ohio Northern University

Ada, OH
1:45 pm EDT
**** Media should arrive by 1:15 pm**

TUESDAY, OCTOBER 12

Meeting with Representatives of the JumpStart Program
City Club of Cleveland
850 Euclid Ave
Cleveland OH
12:00 pm EDT
**** Media should arrive by 11:30 am**

Tour of Cuyahoga Community College Corporate College
25425 Center Ridge Road
Westlake, OH
1:30 pm EDT
**** Media should arrive by 1:00 pm**
**** There will be a brief media availability immediately following the event**

ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

:ober 6, 2004
)4-10-6-14-21-23-25533

U.S. International Reserve Position

: Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets iled $82,688 million as of the end of that week, compared to $82,310 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	September 24, 2004			October 1, 2004		
TOTAL		82,310			82,688	
Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
Securities	11,071	14,206	25,277	11,204	14,241	25,445
which, issuer headquartered in the U.S.			0			0
Total deposits with:						
Other central banks and BIS	10,928	2,855	13,783	11,060	2,862	13,922
'. Banks headquartered in the U.S.			0			0
. Of which, banks located abroad			0			0
'i. Banks headquartered outside the U.S.			0			0
i. Of which, banks located in the U.S.			0			0
IMF Reserve Position [2]			19,531			19,475
Special Drawing Rights (SDRs) [2]			12,676			12,803
Gold Stock [3]			11,043			11,043
Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	September 24, 2004			October 1, 2004		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
Foreign currency loans and securities			0			0
Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
. Short positions			0			0
. Long positions			0			0
Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets

	September 24, 2004			October 1, 2004		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 11, 2004
JS-2008

The Honorable John W. Snow
Prepared Remarks: Mansfield-Richland
Chamber of Commerce
Mansfield, OH
October 11, 2004
**** Updated Version ****

Good morning; it's great to be home in Ohio!

I'm proud to have grown up northwest of here in Toledo, and to have gone to a great little college a few miles from here in Gambier, Ohio. It's always great to come back to the Buckeye state.

Thanks so much for having me here at the Mansfield-Richland Chamber. The people in this room today are the heart of Ohio's economy, and I value the work that you are doing.

I know that it hasn't been easy. As a manufacturing state, Ohio has recently felt the pain of an economy that has been hit hard from a number of quarters. The citizens of this area have lost jobs. Getting them back to work is a top priority for President Bush, and for me.

We understand that bad economic times hit Ohio hard. And the effort to get your economy on solid footing, to a place where you can expand, grow and create more jobs, is a continuing priority; as the President has often said we will not be satisfied until everyone looking for work can find a job.

Some things we know for certain. Like the fact that new jobs cannot come soon enough for the people who have lost theirs. The question is: where will those jobs come from and what can government do to help?

The short answer to that question: the jobs will come from the people in this room today and others like you all across the country.

That's why the President's goal is to make sure that the work you do, on the front lines of job creation and economic growth, isn't over-burdened by unfair levels of taxation and regulation. We know that, as small-business owners and operators, you simply ask for two things from your government: fairness and freedom.

You seek the freedom to start up a new business venture, to run it and grow it, or to close the door and go fishing if that's what you want to do. You also want to be treated fairly, and you deserve nothing less.

In exchange for fairness and freedom, your unspoken promise to your country and our economy is: job creation and the fuel our economic engine runs on. This is why we've got to keep tax rates low on business owners like you, and on every American who pays taxes.

An important, ongoing truth of the American economy is this: the government won't and shouldn't choose what jobs are created; entrepreneurs and innovators will do that. Government's responsibility is to make sure they have the freedom to do so and often the best thing government can do to help is simply get out the way.

That's why entrepreneurs and small-business owners are at the heart of President

George W. Bush's economic policies. The President understands that creating an environment in which you can flourish is the essential ingredient in any recipe for economic growth.

Free and fair trade is an important element in this. Ninety-seven percent of all identified exporters are small businesses like yours. Free trade helps you, and it helps to create more higher-paying jobs for American workers by opening new markets for American products and services, bringing lower prices and more choices to American consumers, and attracting foreign companies to invest and hire in the United States. America is economically stronger when we participate fully in the worldwide economy. When 95% of the potential customers for American products live outside the U.S., America must reject policies that embrace economic isolationism. Here in Ohio thousands of workers' jobs depend on trade agreements that enable Ohio-made products to compete in markets around the world. Since the enactment of NAFTA in 1994, Ohio's exports to Mexico have tripled, and last year exports totaled more than two billion dollars. Since the end of 2000, Ohio's exports increased more than any state in the country. Exports are clearly vital to our Nation's economic strength. At the same time, it is critically important that our trade partners play by the rules. America's markets are the most open anywhere and trade has to be a two-way street. That is why we are pressing the Chinese and others to open their markets and live up to their commitments to the WTO. That is one reason why we are pressing the Chinese so hard to stop pegging their currency and allow it to move freely like other currencies. Currency is a critical factor in global trade and we have pressed the Chinese hard on this point and they have heard us. The Chinese are now committed to moving to a flexible exchange rate and we are going to continue to monitor their progress closely.

The President appreciates that small businesses create two-thirds of new private sector jobs in America. He knows that you employ more than half of all workers, and account for more than half of the output of our economy. As the President often says, what's good for small business is good for America. Because when small business is growing, the American economy is growing.

That's why the President's tax cuts allowed small-business owners like you to keep more of your business income, and encouraged you to invest in the growth of their companies. For example, nearly 860,000 business taxpayers here in Ohio will save money on their 2004 taxes.

Similarly, the tax cuts have allowed individuals to keep more of their income. More than 4.4 million Ohio taxpayers will have lower income tax bills in 2004 thanks to the tax relief.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, over 1.9 million jobs have been created since last August - 13 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day at near record rates. People are finding new, good jobs. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children. National income and national wealth have never been higher. That said, we are not satisfied.

Our economy has come a long way. When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence.

We are fortunate that our economy is the most open, flexible, adaptive and resilient in the world. Our powerful core elements - small-business owners and entrepreneurs, an outstanding workforce, and the simple fact that we operate as a free market - have enabled us to recover from those very difficult economic times.

Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

How to help our economy right itself when it is in distress is a lesson in American history. We know from long experience that our economy responds best to the very thing that created it: freedom.

Freedom from excessive taxation. Freedom from abusive, frivolous lawsuits and of course freedom from terrorist assaults.

As I said before, small firms like yours also respond to fairness. That's why the President wants to bring fairness to the purchase of health insurance by allowing you to pool your purchasing power to buy your policies anywhere in the U.S., putting you on a better footing with bigger businesses - that's only fair.

The President believes in small businesses, and the spirit of enterprise it represents. He wants you to have a level playing field. That's why he has worked so hard to bring the perspective of small business to government regulations.

When freedom, fairness and American entrepreneurs are combined, the end product is jobs and growth.

We have plenty of work to do - in Ohio and across America. But if we continue on the path of freedom and making sure individuals, entrepreneurs and family businesses have an open and fair environment in which they can work and grow, our best economic days will remain ahead of us and I am optimistic about our future.

Thank you so much for having me here today; I look forward to our discussion.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 11, 2004
JS-2011

Deputy Assistant Secretary Iannicola to Deliver Remarks at National Financial Education Web site and Hotline Launch

Treasury's Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr., will deliver remarks at the Financial Literacy and Education Commission's launch of a new national financial education Web site and toll-free hotline at the National Credit Union Administration's headquarters.

National Credit Union Administration Chairman JoAnn Johnson will welcome Commission representatives and congratulate them on the development of this new service. Government officials from the Commodity Futures Trading Commission, Federal Deposit Insurance Corporation, and General Services Administration will also deliver brief remarks.

WHO: Dan Iannicola, Jr., Deputy Assistant Secretary for Financial Education, Treasury
JoAnn Johnson, Chairman, National Credit Union Administration
Sharon Brown-Hruska, Chairman, Commodity Futures Trading Commission
Donna Gambrell, Deputy Director of Compliance and Consumer Protection, FDIC

WHAT: Launch of new national financial education Web site and toll-free hotline

WHEN: Tuesday, October 12, 2004
11:30 a.m. (EDT)

WHERE: National Credit Union Administration
1775 Duke Street
Room No. 7047
Alexandria, VA 22314

Members of the press should plan to arrive 30 minutes prior to the media availability to check in with security and set up equipment.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 12, 2004
js-2012

Under Secretary Taylor Remarks at Wharton Finance Conference

Bullish News about the World Economy
John B. Taylor Under Secretary of the Treasury for International Affairs Written Version of Keynote Address Presented at the Annual Wharton Finance Conference "Global Finance: Unleashing the Bull" Wyndam Hotel Philadelphia, Pennsylvania October 8, 2004

Thank you for inviting me to speak here today. It is a pleasure to be here in Philadelphia and to participate in this discussion on the global economy with students, industry professionals, and finance scholars. The conference theme – Global Finance: Unleashing the Bull – couldn't be more topical, for a bullish assessment of the global economy is exactly what the facts tell us today.

I am going to let the facts speak for themselves tonight. First, let's start right here at Wharton. I hear that the number of firms coming to interview at Wharton is way up this year, compared to last year. That is good news for the students in the audience, but it is just one of many signs of significantly improving conditions in job markets in the United States. Data showing improvements in the job market for the country as a whole were announced this morning. They show that the U. S. economy is continuing to grow. Estimated job creation was revised upward by more than 200,000 jobs through August, and with September's increase of another 96,000 jobs, we have 1.9 million jobs created since August of last year. Most economists now estimate that economic growth in the third quarter will turn out to be at least as great as the 3.3 percent in the second quarter.

And the global economy is strong too. The International Monetary Fund's most recent estimate of global growth for this year is higher than it has been in three decades! And this good global economy is good news for the United States economy because it means that the growth in exports, in jobs, and in incomes for Americans will be more certain and lasting.

But there is much more. This year there are no major financial crises in the world to talk about. This is in striking contrast to the 1990s when one financial crisis after another brought high interest rates and soaring unemployment to the economies of Latin America, Asia, and Russia.

A related favorable development is that contagion of financial crises across countries, which was discussed so much by market analysts in the 1990s, also seems to have disappeared from the scene. It was in 1998 that the default on Russia's debt caused financial storms as far away as Africa, Latin America, and East Asia. In the more recent Argentina default in 1998 there was no contagion beyond Uruguay, just next door.

And there is no major economy in recession. The only recession that I heard about recently was the recession in the "crisis expert" business. One expert jokingly asked if I could do something about it.

Most economies in the world are now growing at a healthy "goldi-locks" pace--neither too fast, nor too slow--suggesting that global economic growth will continue. The United States is expanding at a sustainable pace--for the third year in a row. The second largest economy in the world, Japan, has also been growing nicely, in contrast to its lost decade of the 1990s. China's rapid growth earlier in the year has slowed to a more sustainable pace, and the rest of Asia is again doing well after last year's SARS scare. In Latin America, growth has picked up in Mexico,

Columbia, Peru, Chile, Brazil, and Argentina. Latin America grew at over 5 percent so far this year. Russia and most of the European economies are also growing strong. Even the French and German economies have shown signs of growth this summer.

Yet another favorable development is that interest rate spreads between emerging market bonds and U.S. Treasuries are at historically low levels. The spreads are important measures of global risk. Spreads have come down markedly during the last two years. They have stayed down despite the forecasts early this year that spreads would rise sharply throughout the year as monetary tightening in the United States began.

Another measure of risk--volatility in financial markets--is also low. You can clearly detect this by looking at the implied volatility in the options price formula that you have been studying at Wharton, but ask traders and they will tell you about it.

One of the most auspicious developments in the world economy is that there are no major inflation scares. Inflation is low and stable in the United States and Europe, and the persistent deflation in Japan is past its low point and price stability is expected soon. That inflation is low in emerging markets is especially significant. The average inflation rate in emerging markets was 65 percent in the mid 1990s. Now it is less than one-tenth of that. That benign inflation environment in the United States and other large economies is more evidence that the global economic expansion should continue.

The one element of risk we clearly see today is the high price of oil. West Texas Intermediate closed at $52.58 per barrel today. Those higher prices are a drag on economic growth, but the global economy is strong and the expansion in the United States can withstand such shocks. But such risks are a reminder that we cannot be complacent, despite the otherwise excellent economic situation.

Why are economic times so good? In my view, a big part of the answer can be found in improved economic policies, whether in the United States, Japan, Brazil, Turkey, or elsewhere. The United States economy is growing--despite the setback of the downturn starting in 2000, the 9/11 terrorist attacks, and the corporate scandals--because of the timely response of monetary and fiscal policy, especially President Bush's tax cuts of 2001 and 2003. The Japanese economy is growing because Prime Minister Koizumi insisted on fundamental change, and monetary growth was increased and non-performing loans were reduced. Improved economic relations between the United States and Japan--led by President Bush and Prime Minister Koizumi--had a lot to do with these changes.

Similar explanations hold for other good performances, including the high growth, declining inflation, low spreads under President Lula in Brazil and Prime Minister Erdogan in Turkey, two countries that had been plagued by crisis at the start of the Bush Administration. As with Japan, support by the United States for these allies and their economic policies has been important. The path breaking Agenda for Growth with the G7 and the new Group for Growth with Brazil has reinforced and supported pro-growth policies by sharing experiences and knowledge.

What about the decline of crises and risk spreads and volatility? One reason they are down is because of the more credible focus on price stability by central banks--aided by market-determined flexible exchange rates--which has largely ended the boom-bust cycle in many countries and is now laying the foundation for what may be the longest global boom we have ever seen. This trend began with the Federal Reserve years ago but has spread around the world in more recent years.

In addition, the international financial institutions have begun to reform, following calls by the Bush Administration joined by many of our allies. Important reforms include greater clarity and predictability in the use of large-scale financing from the International Monetary Fund, the use of collective action clauses in emerging market debt, and the movement toward grants rather than loans at the World Bank. Such reforms themselves--while still very recent in their implementation--improve confidence, showing that international financial officials can work to make needed changes in the international financial system. Greater transparency at central banks and governments has also helped to reduce contagion by enabling market analysts to better discriminate between countries that follow good policies and those that do not.

I suspect that some of you may find the bullish situation I am describing here tonight a bit surprising. One reason may be that you do not read much about in the press. Most journalists I talk to agree that the global economic situation is indeed unusually good, but few think it is news worthy enough to write about. One reason is simply that it is good news, not bad news. As one of the journalists told me, "We won a prize for our coverage of the terrible Russian financial crises in 1998. There is no way we could win a journalism prize for covering the current good state of the world economy. I'm not going to cover it. I'd be surprised if anyone here covers it."

The recent cover of the *Economist* magazine illustrates this point well. The cover story described world economic facts that are not much different from the facts I just described. After all, we look at the same facts. But the headline on the magazine cover was "Scares Ahead for the World Economy," perhaps more sensational, but certainly less descriptive of the facts than the title of my remarks tonight.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 11, 2004
js-2013

Treasury Official Remarks before ISAC Meeting

Remarks of Critical Infrastructure Protection Deputy Assistant Secretary D. Scott Parsons before Information Sharing and Analysis Center Congress Meeting Miami Beach, Florida

I appreciate the opportunity to speak with you this evening on the important role that Information Sharing and Analysis Centers (ISACs) have in protecting our critical infrastructures.

The President has put into action a comprehensive plan to protect our country from physical and cyber threats. This plan has been instrumental in keeping our citizens safe, and our country is stronger today than ever before. The plan is also flexible and adaptive, allowing us to stay one step ahead of those who wish to do us harm.

There are many elements to the plan. One of the most important elements is how the President structured the government to carry out its protective mission, starting with creation of the Department of Homeland Security (DHS). The President also identified lead agencies for vital, at-risk sectors, designating the Department of the Treasury as the lead agency for the banking and finance sector.

One of the many responsibilities of the Treasury is creating conditions that promote a strong economy and a resilient financial sector. We implement the pro-growth economic policies of the President that lead to job creation and economic growth. For example, over 1.9 million jobs have been created since August of 2003, families have seen their after tax income rise more than 10 percent since the President took office, and national homeownership is at an all time high. In a very real sense, the financial system is the life blood of our economy. Our citizens rely on the sector for many of their daily needs, including purchasing groceries and saving for education and retirement. The Department of the Treasury works to ensure the resiliency of the thousands of financial institutions that comprise the financial sector. One of our most important tools that we use to achieve this mission is an ISAC, in this case the Financial Services ISAC (FS-ISAC).

A unique insight of the President's strategy is that most of the critical infrastructure is owned by the private sector. As the President stated in his National Strategy for the Physical Protection of Critical Infrastructures and Key Assets, "it is important to remember that protection of our critical infrastructures and key assets is a shared responsibility. Accordingly, the success of our protective efforts will require close cooperation between government and the private sector at all levels."

Homeland Security Presidential Directive - 7 (HSPD-7) spelled out very clearly how the President wants us to organize in order to face the challenges of protecting our critical infrastructures. It mandates that federal departments and agencies work with state and local governments and the private sector. It calls for the Department of Homeland Security to coordinate the overall national effort. Recognizing that each sector has its own unique attributes and operating models, it designates "sector specific agencies," or lead agencies, which have the expertise to understand best the needs of their sector.

Long before the 9/11 commission began its work, the President called for better information sharing between the public and private sectors. In the National Strategy for the Physical Protection of Critical Infrastructures and Key Assets and

the National Strategy to Secure Cyberspace, both published in February of 2003, the President called for a public-private partnership built on the exchange of information. HSPD-7, signed in December of 2003, reinforced this important concept by calling for the establishment of "mechanisms to facilitate sharing of information about physical and cyber threats, vulnerabilities, incidents, potential protective measures, and best practices."

ISACs are the cornerstone for information sharing between the public and private sector. The FS-ISAC is the mechanism we choose to use to communicate with the banking and finance sector. In August, the threat level for several regions of the financial services sector was raised from yellow to orange based on specific and credible threat information. It was the first time that the threat level was raised in such a targeted way. The FS-ISAC was instrumental in providing timely, actionable information and keeping the sector informed. The sector, and especially the affected institutions, did not panic. Rather, they responded in a business like manner, acting responsibly on the information that was provided to them. The FS-ISAC provided insight into the types of information the sector needed, and ensured that information got to the people who needed it most.

It is vitally important that we continue to have sector specific ISACs that understand the characteristics of their sector, the people and institutions that comprise the sector, and the best method to put actionable information in the hands of those who need it.

As our national strategy has evolved, the fundamental objective remains to protect against the incapacitation and destruction of critical sectors, and ensure that each of the sectors is resilient against threats that are man made, or natural. ISACs play a vital role in this mission. I commend you on the work and progress you have made over the past few years. And I wish you a productive and successful meeting during the next few days here in Miami.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 12, 2004
js-2014

Treasury Official to Address Cleveland Chartered Financial Analyst Program

Treasury Under Secretary Brian C. Roseboro will be in Cleveland Wednesday to meet with local investment analysts and discuss the President's efforts to strengthen the economy and create jobs. Roseboro will address Cleveland's Chartered Financial Analyst Program.

The following event is open to the media:

WHO
Under Secretary for Domestic Finance, Brian C. Roseboro

WHAT
Remarks to the Chartered Financial Analyst Program of Cleveland

WHEN
Wednesday, October 13, 2004
12 p.m. (EDT)

WHERE
Sammy's Metropolitan Ballroom
Executive Room
925 Euclid Avenue
21st Floor of the Huntington Bank Building
Cleveland, OH

-30-

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 12, 2004
JS-2015

MEDIA ADVISORY
Secretary Snow to Visit St. Louis, Missouri Tomorrow to Discuss U.S. Economy

Treasury Secretary John W. Snow will visit the St. Louis, Missouri area on Wednesday, October 13 to meet with local business leaders and students to discuss the President's efforts to strengthen the economy and create jobs.

"As a result of the President's economic leadership, we have overcome a recession and seen 13 straight months of job creation, totaling more than 1.9 million new U.S. jobs since August 2003," said Secretary Snow. "Missouri has gained new jobs this year, and the President's tax reform policies have ensured that more than 2 million Missouri taxpayers will have lower income tax bills in 2004."

During this trip to Missouri, Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

Recent indicators show that President Bush's economic policies continue to move the economy forward. According to the Labor Department, the national unemployment rate was 5.4% in September – down 0.9 percentage point from a peak of 6.3% in June 2003 and the lowest rate since October 2001. At 5.4%, the unemployment rate is below the average of the 1970s, 1980s, and 1990s. Employment over the last year was up in 47 of the 50 states and the unemployment rate was down in all regions and in 45 of the 50 states.

The following event is open to the media, which must present media credentials or photo ID:

Wednesday, October 13

Tour and Roundtable with Local Business Leaders at Keller Laboratories
Keller Laboratories
160 Larkin Williams Industrial Court
Fenton, MO
10:30 am CDT
**** Media should arrive by 10:00 am**
**** There will be a brief media availability immediately following the event**

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 12, 2004
JS-2016

The Honorable John W. Snow
Prepared Remarks:
Cuyahoga Community College's Corporate College
Westlake, OH
October 12, 2004
**** Updated Version ****

Good morning; it's great to be home in Ohio!

I'm proud to have grown up west of here in Toledo, and it's always great to come home to the Buckeye state.

The opportunity to visit Corporate College means a lot to me because your program is such a good example of what the future of worker training in this country needs to look like. Your curriculum corresponds directly to the needs of local employers; this concept is critical for efficient and successful worker training and placement.

The first thing I'd like to mention today, especially since we're talking about the importance of life-long learning, is the launch of a new website and toll-free hotline that are going "live" today... and this new program is something that I think a lot of Americans are going to find very helpful. It offers tips, advice and information about personal finances. The program offers guidance that will help Americans choose and use credit cards, get out of debt, protect their credit records, understand their Social Security benefits, insure their bank deposits, and start a savings and investment plan.

This new educational program is called "MyMoney" and the website address is www.mymoney.gov. The phone number you can call to request a My Money Tool Kit is 1-888-mymoney. The service is available, both online and on the phone, in English and Spanish.

The launch of mymoney.gov is an outstanding contribution to the public and private efforts to improve financial literacy in America because gaining a better understanding of your money, and how to manage it, is critical to raising your quality of life. The MyMoney service is going to help millions of people across America improve their lives through a better understanding of their own finances.

Anyone who spends money is managing money, and learning more about money management is an awfully important step in improving our lives. Financial education and literacy is a terrific example of the life-enhancing benefits of continued learning, throughout our lives and careers.

We're gathered here today to talk about a lifetime of learning, and I'm so pleased to do so in this college that is changing people's lives through education and training.

The primary goal of continuing education is to prepare a person for a job – whether it's their first job, a better job than they had before, or a new job after being laid off. And if the education they receive cannot be applied to a local industry or business looking for workers, the additional training doesn't deliver the goods.

Colleges like yours offer great hope to workers and employers alike, especially in a changing economy. In this part of the country, manufacturing jobs are often being replaced with new and different kinds of work, often high tech jobs – little comfort to the manufacturing worker who doesn't have high-tech skills. And that's where a

school like Corporate College comes in.

This is why the President is committed to finding new ways for Americans to improve their lives through local community colleges. He's encouraging partnerships between community colleges and employers, so that the colleges can design training programs that meet the local employment needs. His Jobs for the 21st Century program would make it possible for more people to get good, relevant training and education at institutions like Corporate College.

Matching employer needs with worker skills results in higher employment, and that's what Ohio needs. I commend you for this important work.

Hard economic times hit Ohio hard. Buckeyes have lost jobs. Getting them back to work is a top priority for President Bush, and for me. As the President has often said we will not be satisfied until everyone looking for work can find a job.

We have work to do, and critical economic goals to reach. That said, our economy has come a long way. When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence.

We are fortunate that our economy is the most open, flexible, adaptive and resilient in the world. Our powerful core elements – small-business owners and entrepreneurs, an outstanding workforce, and the simple fact that we operate as a free market – have enabled us to recover from those very difficult economic times.

Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

Here in Ohio, the President's tax cuts allowed small-business owners to keep more of your business income, and encouraged them to invest in the growth of their companies. For example, nearly 860,000 business taxpayers here in Ohio will save money on their 2004 taxes.

Similarly, the tax cuts have allowed individuals to keep more of their income. More than 4.4 million Ohio taxpayers will have lower income tax bills in 2004 thanks to the tax relief.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, over 1.9 million jobs have been created since last August – 13 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day at near record rates. People are finding new, good jobs. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children. National income and national wealth have never been higher.

That said, we are not satisfied. New jobs cannot come soon enough for the people who have lost theirs. The question is: where will those jobs come from?

An important, ongoing truth of the American economy is this: the government won't and shouldn't choose what jobs are created; entrepreneurs and innovators will. Government's responsibility is to make sure they have the freedom to do so.

That's why entrepreneurs and small-business owners are at the heart of President George W. Bush's economic policies. The President understands that creating an environment in which they can flourish is the essential ingredient in any recipe for economic growth. Often it is best if government simply gets out the way.

Free and fair trade is an important element in this. Ninety-seven percent of all identified exporters are small businesses. Free trade helps them, and it helps to create more higher-paying jobs for American workers by opening new markets for

American products and services, bringing lower prices and more choices to American consumers, and attracting foreign companies to invest and hire in the United States. America is economically stronger when we participate fully in the worldwide economy. When 95% of the potential customers for American products live outside the U.S., America must reject policies that would result in economic isolationism. Here in Ohio thousands of workers' jobs depend on trade agreements that enable Ohio-made products to compete in markets around the world. Since the enactment of NAFTA in 1994, Ohio's exports to Mexico have tripled, and last year exports totaled more than two billion dollars. Since the end of 2000, Ohio's exports increased more than any state in the country. Exports are clearly vital to our Nation's economic strength. At the same time, it is critically important that our trade partners play by the rules. America's markets are the most open anywhere and trade has to be a two-way street. That is why we are pressing the Chinese and others to open their markets and live up to their commitments to the WTO. That is one reason why we are pressing the Chinese so hard to stop pegging their currency and allow it to move freely like other currencies. Currency is a critical factor in global trade and we have pressed the Chinese hard on this point and they have heard us. The Chinese are now committed to moving to a flexible exchange rate and we are going to continue to monitor their progress closely.

How to help our economy right itself when it is in distress is a lesson in American history. We know from long experience that our economy responds best to the very thing that created it: freedom.

Free trade. Freedom from excessive taxation. Freedom from abusive, frivolous lawsuits and of course freedom from terrorist assaults.

When freedom, fairness and American entrepreneurs are combined, the end product is jobs and growth. Add relevant worker training to that equation, and you have high employment-and that's the path we're on.

We have plenty of work to do – in Ohio and across America. But if we continue on the path of freedom and making sure individuals, entrepreneurs and family businesses have an open and fair environment in which they can work and grow, our best economic days will remain ahead of us and I am optimistic about our future.

Thank you so much for having me here today.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 8, 2004
JS-2017

Deputy Secretary Samuel Bodman
Treasury Department's Hispanic Heritage Month Celebration Event
U.S. Department of the Treasury
October 8, 2004

Thank you, Rebecca [Contreras]. I want to thank our guest speaker, Leslie Sanchez, for being here . Thank you for joining us today to share your experiences and inspiring life story.

Let me add my welcome to all of you as we celebrate the culture, the spirit and the contributions of Hispanic Americans. The contributions of Hispanic Americans are indeed many and important – to our communities and schools, our businesses, and our government at all levels. As the theme for this month says: Hispanic Americans are truly making a difference across our nation.

It's always good to see representation at events like this from across the Department, and I know that some of you had a hand in organizing today's event. Thank you for your hard work.

I've had the privilege to work with you for about eight months now. And, as we gather in this beautiful and historic room, I hope you all share my feeling of tremendous pride in working for this esteemed Department.

I also hope that you know that each of you makes very real and important contributions to the economic health of this nation and the well being of our fellow citizens.

Since joining the Department in February, I have found here what I also found in my three years as Deputy at the Commerce Department – a cadre of dedicated, hard-working and talented employees creating results for the American people.

And that brings me to one of the reasons why I wanted to join you today. I believe that the strength and talent of the federal workforce derives from many sources: from your skill and knowledge, your strong sense of commitment to our fellow citizens and the good of our nation, and also from your diversity.

The diversity of the federal workforce – and of the American people in general – has been, and will continue to be, a great advantage. Our diversity – of race and religion, of background, of culture, and of ideas – makes us stronger.

And it is not only our differences that push us forward as a nation, but our appreciation of those differences. That is why it is particularly important that we make time for events like this one, to celebrate who we are as a country and where we are headed.

And so, my message to you today is simple. As you go about your work today and everyday, please know this: YOU are this Department's most important assets. Not our buildings, or our equipment, or our technology , but all of you.

I thank all of your for your service to this Department and this great – and diverse – nation. I look forward to continuing to work with you and see the results of the positive changes that you bring about for our fellow citizens, our communities, and our world.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 12, 2004
js-2020

Secretary Snow Announces Launch of MyMoney Web site and Toll-Free Hotline

Treasury Secretary John Snow today announced the launch of the new national financial federal education Web site, mymoney.gov, and toll-free hotline, 1-888-mymoney, during the his visit to Ohio. Secretary Snow commended the efforts of numerous federal government agencies in launching the new, free service, which provides the American public with easy access to important information on a wide-range of personal finance topics.

"The launch of mymoney.gov is an outstanding contribution to the public and private efforts to improve financial literacy in America," said Snow. "Gaining a better understanding of your money, and how to manage it, is critical to raising your quality of life. The mymoney service is going to help millions of people across America improve their lives through a better understanding of their own finances."

The my.money.gov Web site and the toll-free 1-888-mymoney hotline were launched today by several representatives of a federal government commission, the Financial Literacy and Education Commission, which was created to improve financial education in America. The launch of the new service was announced today at the National Credit Union Administration's headquarters in Alexandria, Virginia. Several government officials gathered including: Chairman JoAnn Johnson, National Credit Union Administration; Acting Chairman Sharon Brown-Hruska, Commodity Futures Trading Commission; Assistant Secretary Wayne Abernathy, Department of the Treasury; Deputy Assistant Secretary Dan Iannicola, Jr., Department of the Treasury; and Director Donna Gambrell, Federal Deposit Insurance Corporation.

Treasury's Assistant Secretary for Financial Institutions Wayne Abernathy praised the coordination efforts of the Financial Literacy and Education Commission's Web site and hotline subcommittees. "I applaud the Commission's coordination efforts. Each agency involved lent its time, insight and expertise to the hotline and Web site subcommittees and helped bring about this new personal finance resource," said Abernathy. "The mymoney Web site and toll-free hotline are a result of twenty federal agencies' partnership and their commitment to a common goal of improving financial education across the country."

Treasury's Deputy Assistant Secretary for Financial Education Dan Iannicola also remarked on the importance of this new service. "The federal government offers the public a treasure of financial education materials free of charge. Up until today, though, it has been a hidden treasure." Iannicola continued, "With the new mymoney Web site and hotline people all across America can get easy access to the information they need to make smarter financial decisions."

The Web site and hotline were created to help the public gain easier access to information that can help them better understand their money - how to save it, invest it and manage it wisely to meet personal goals. The public can visit mymoney.gov or order a tool kit, which includes a sample of what the Web site has to offer. The Web site has all the downloadable information found in the My Money Financial tool kit in addition to more resources. Many of the publications are also available in Spanish. Individuals that order the toolkit will receive information to help them choose and use credit cards, get out of debt, protect their credit records, understand Social Security benefits, insure bank deposits and start a savings and investments plan. A free My Money Financial Tool Kit can be obtained by placing an order either through mymoney.gov or by calling 1-888-mymoney. A similar version of the My Money Financial Toolkit is also available in Spanish.

The General Services Administration's Federal Citizen Information Center in Pueblo, Colorado assembles and mails the tool kits, and provides hotline operators, which support English and Spanish requests for the financial education tool kits. The average time for delivery of a tool kit is two to three weeks.

The new Web site and toll-free hotline were created in response to federal legislation, which tasks the Financial Literacy and Education Commission with establishing and maintaining a Web site to serve as a coordinated point of entry to information about federal financial literacy and education programs, as well as to establish a toll-free hotline for those seeking information about issues pertaining to financial education. The Fair and Accurate Credit Transactions Act (Public Law 108-159 Section 511), signed by President Bush on December 4, 2003, established the 20 member Commission to develop a national financial education Web site and hotline, as well as a national strategy on financial education.

The Financial Literacy and Education Commission, is chaired by the Secretary of the Treasury and is also made up of the heads of 19 other federal agencies including: the Office of the Comptroller of the Currency; the Office of Thrift Supervision; the Federal Reserve; the Federal Deposit Insurance Corporation; the National Credit Union Administration; the Securities and Exchange Commission; the Departments of Education, Agriculture, Defense, Health and Human Services, Housing and Urban Development, Labor, and Veterans Affairs; the Federal Trade Commission; the General Services Administration; the Small Business Administration; the Social Security Administration; the Commodity Futures Trading Commission; and the Office of Personnel Management. The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, homeownership, and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
JS-2021

Treasury Deputy Assistant Secretary Iannicola to Team-Teach Savings and Investing Skills to High School Students in Weare, New Hampshire

Treasury's Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr. will teach a financial education lesson on the topic of savings and investing to high school students at John Stark Regional High School in Weare, New Hampshire. Mr. Iannicola will emphasize the importance of acquiring the personal finance skills to make wise financial decisions throughout their lives.

WHO: Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr.

WHAT: Financial education team-teach on the topic of savings and investing.

WHEN: Wednesday, October 13, 2004
9:45 a.m.

WHERE: John Stark Regional High School
618 North Stark Hwy, Route 114

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
JS-2022

The Honorable John W. Snow
Prepared Remarks: Tour and Roundtable at Keller Laboratories
Fenton, MO
October 13, 2004

Good morning; it's great to be here in Missouri. I appreciate the opportunity to talk with you about the economy both here, and all across this great nation of ours.

Here in Missouri, you've added thousands of jobs to your payrolls so far this year. That's good news for a lot of Missouri families... but I know it could be even better.

There are still people here in the "Show Me State" who are saying: "Show me where my new job will come from!"

And we can't be satisfied until those folks have found jobs.

I am often asked where the jobs of the future will come from – a month from now, a decade from now. That's a pretty tough question to answer. No one can predict what the next great technology or industry will be, but I know it's safe to say that most of America's jobs will always come from people like you and Tom Keller.

Your businesses may be small. They may never show up on the New York Stock Exchange or the Fortune 500 list... but they create jobs for the people of your community, and that means everything. In fact, 2 out of 3 new jobs come from small businesses.

When our country goes through a rough patch, economically, small business has always been there to pull us out. You are part of the most powerful elements of our economy, which I see as a combination of: small-business owners and entrepreneurs, our outstanding workforce and the simple fact that we operate as a free market. These elements add up to the most open, flexible, adaptive and resilient economy in the world today.

The President understands how important you are to our economy, and he's made you a priority in his economic policies.

He understands that, as small-business owners and operators, fairness and freedom are the only two things that you really want from your government.

You seek the freedom to start up a new business venture, to run it and grow it, or to close the door and go fishing if that's what you want to do. You also want to be treated fairly, and you deserve nothing less.

In exchange for fairness and freedom, your unspoken promise to your country and our economy is: job creation and the fuel our economic engine runs on.

This is why the President reduced your taxes and has called on Capitol Hill to give you the option of Association Health Plans to reduce your health insurance costs. That's why he wants to make the tax code simpler, fairer, and pro-growth. And it's why he wants to reduce that fear of baseless lawsuits that haunts you, costs you money, and ultimately acts as a tax on economic growth in this country.

With small business in the lead, our economy has come a long way.

When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence.

Those key elements that I mentioned earlier – small business, outstanding workers, and a free-market system – proved to be the foundation, as they always have been, for our impressive economic recovery following this series of economic blows.

Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, over 1.9 million jobs have been created since last August – 13 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day at near record rates. People are finding new, good jobs. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children. National income and national wealth have never been higher. That said, we are not satisfied.

The President's tax relief is still working for the people of Missouri, with more than 2 million taxpayers saving money on their income tax bills in 2004 and 440,000 business taxpayers like you able to use your 2004 tax savings to invest in business equipment and employee compensation.

At this point, it is critical to make that tax relief permanent, and to continue lifting the barriers to growth in other areas as well – by making health care more affordable, abusive lawsuits more scarce, and energy costs more reasonable.

Thank you so much for having me here today in this great American city, and thank you for the work you do to keep our economy strong.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
JS-2023

Treasury Deputy Assistant Secretary Iannicola To Lead Adult Financial Literacy Roundtable in Portland, Maine

Treasury's Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr. will lead an adult financial literacy roundtable in Portland, Maine. The roundtable discussion, hosted by the Institute for Financial Literacy, will focus on adult financial literacy initiatives. Roundtable participants will include representatives of major financial literacy initiatives in Maine.

WHO: Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr.

WHAT: Mr. Iannicola will deliver remarks on the importance of improving adult financial literacy.

WHEN: Thursday, October 14, 2004
9:00 a.m. – 12:00 p.m. (EST)

WHERE: One City Center
Portland, Maine 04112

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
js-2024

Remarks by D. Scott Parsons, DAS for Critical Infrastructure Protection Before the National Association of Federal Credit Unions Regulatory Compliance Seminar Albuquerque, New Mexico

I want to thank you for the opportunity to be here today in Albuquerque with the community of credit unions represented by the National Association of Federal Credit Unions. Today, you have asked me to talk about the Treasury Department's approach to rule making for the USA Patriot Act. I also want to provide you with an update of some of our policies on the growing problem of identity theft.

The Importance of Credit Unions

Credit Unions are important to our financial system, providing services to many citizens. Your motto says it all – "not for charity, not for profit – but for service." The service you provide to your members and the communities you serve enable Americans to pursue their dreams and to take ownership of their futures. The seminar today on regulatory compliance is an example of how the credit union community works together to provide your members with good service and to ensure you are meeting the safe and sound regulatory requirements.

Treasury Secretary Snow has said that the financial system is the engine of our economy, and credit unions play an important role. Our economy is strong. For example, the President's pro-growth economic policies have created over 1.9 million jobs since August of 2003 and the national home ownership rate is at an all time high. Real after tax income is up over 10% since President Bush took office, which means your members have more money to save, invest, and provide for their families.

I want to make one more point about tax policy. The President is very clear about this – he strongly supports the tax-exempt status of credit unions and will oppose any effort to change your tax status.
Your leadership in supporting financial literacy is exemplary. The Department of the Treasury has awarded the John Sherman Award for Excellence in Financial Education to several credit unions for their innovative financial education efforts. And just yesterday, the Treasury, which chairs the Financial Literacy and Education Commission, partnered with the National Credit Union Administration (NCUA) to announce a new Financial Education Website and Hotline that will promote financial literacy and education. This is yet another example of the outstanding service that credit unions provide.

Why the Patriot Act was Created

Before commenting on specific sections of the USA Patriot Act, I think it's important for us to step back and remember why the Patriot Act was created in the first place. It was created in response to the unprovoked terrorist attacks on America on September 11, 2001. It rose out of the rubble of the World Trade Center, the Pentagon, and the wreckage in a Pennsylvania field. On that day, 3,000 of our fellow citizens lost their lives. The terrorists have continued their violent and destructive killing spree elsewhere in the world, striking in Indonesia, Spain, Saudi Arabia, Pakistan, Morocco, Turkey, the Philippines, Israel, and most recently in a school house in Russia.

The Patriot Act was created to make Americans safer by providing law enforcement the tools it needed to investigate and prosecute those who wish to do harm to

Americans. Preventing attacks like these is why Congress passed the Patriot Act and why we need your continued partnership in fighting the war against terror. Because, while hatred fuels the terrorist agenda, money makes it possible.

USA PATRIOT Act

Our primary philosophy in our rule making is, where possible, to provide you with the flexibility to implement rules in a manner that best meets your members' needs.

Section 326
Customer Identification Programs (CIPs): These regulations, issued jointly with the NCUA, require credit unions, as a part of their anti-money laundering program, to have procedures to verify the identity of all new accountholders.

The goals set a target, rather than describing in minute detail how best to achieve that target. As you all know from your own organization, credit unions are organized around a group of members that are related by a common field of membership, such as a common employer, membership in a common association or another linkage. Credit unions often will have a far better understanding of the identity of their members than larger financial institutions, because your members and those working in your credit unions literally know each personally, from the office space, from neighborhood, or from the community organization where both volunteer.

In addition to verifying the identity of a member, credit unions must collect the member's name, physical address, date of birth, and taxpayer identification number or foreign government issued document number, such as a passport number issued by a foreign government.

The bottom line is that Section 326 and the CIP obligation contained therein require verification of identity. How that goal is achieved is up to each credit union to decide for itself. We've worked hard to make sure that your members are able to make responsible decisions regarding the many forms of identification used by your members. We believe that the flexibility makes it easier for you to be vigilant, and to have an effective anti-money laundering program.

Section 312
This regulation applies to financial institutions with international correspondent accounts, and to financial institutions with a large customer base of foreigners, generally living abroad.

It is the Treasury Department's understanding that most credit unions do not have international correspondent accounts directly with foreign depository institutions. Where this rule may apply is to credit unions that have in their field of membership non-U.S. citizens. For those credit unions where this is applicable, please do not hesitate to discuss your situation with the FinCEN panelist.

Section 314
Your compliance with Section 314 of the Patriot Act – which requires everyone to share information – has been extraordinary. I know you are going to be hearing about this directly from FinCEN later this morning, but we want you to know that we recognize that cross referencing your list of members against the list of terrorists every two weeks is a big job. We are in this fight together, and your efforts help make the country safer.

It's important for you to know that your efforts are making a difference. Working together, you have accomplished a lot in the last three years. The United States has designated 387 entities as terrorists or supporters of designated terrorists and frozen over $142 million in terrorist-related assets. More than $37 million has been frozen in the United States.

Identity Theft

Identity theft is another issue that we at Treasury have spent a good deal of time on in the past couple of years. The Federal Trade Commission has estimated that as many as 10 million Americans a year fall victim to some form of the crime

somewhere. Identity theft is an epidemic across the entire United States. While many may believe that this crime only affects residents of highly populated states, for instance New Jersey, you may be surprised to find out that the residents of New Mexico have an even higher incidence of this crime. .

In 2003, the FTC, which keeps a centralized data base of victims' identity theft reports, found that 70.3 of every 100,000 New Mexicans reported being a victim. In New Jersey, where there were more than four times as many reported crimes over all, only 68.9.out of every 100,000 citizens reported being a victim of identity theft.

Identity theft is a crime that keeps on taking. That is what spurred the Administration's concern and subsequent action. Secretary Snow announced Administration proposals for combating identity theft in June 2003, and by the end of the year President George W. Bush had signed the Fair and Accurate Credit Transactions Act (FACT Act).

In July this year the President went on to sign the Identity Theft Penalty Enhancement Act that increases federal criminal penalties for identity theft.

Together, the new laws will increase our ability to stop the crime and increase our ability to catch the crooks. Both laws complement each other and give new tools to members, business, regulators and law enforcers. Both statutes strengthen collaboration between Federal, State, and local law enforcement, and the Federal Trade Commission by creating joint task forces, specialized training, and citizen education and outreach programs.

Rulemaking on the FACT Act

Treasury is closely involved with implementation of the FACT Act. Two of our bureaus, for example, are involved in promulgating a host of new rules to help consumers and financial institutions deter, detect, and derail the criminals.

Beginning on December 1, 2004, the three nationwide consumer reporting agencies will roll out the system for requesting one free credit report every 12 months. Implementation of this important new system will begin in the Western United States and is scheduled to be available to all U.S. citizens by September 1, 2005. All Americans will be able to check their credit reports for errors without charge, by making a single contact to one of the three agencies.

The FACT Act also established a fraud alert system. Regulators are working on the final rules for how this one-call system will work and how consumers will be able to show that they have been victimized. The idea is that consumers will be able to report the theft of their identity to one consumer reporting agency and the information will be shared with the other national agencies.

Let me spend a moment on this, because the alert system will include a special alert for military personnel to activate with the national credit bureaus before the soldiers are sent on active duty. The Administration and the Congress wanted to give our soldiers, sailors, marines, and airmen a chance to let prospective lenders know that they were away from home and not likely to be requesting credit to remodel the kitchen. We know that many credit unions have a military base as their field of membership or have many military members within their membership. This new alert will benefit both you and your members by cutting down on fraud, both by making it easier for your members to rectify the situation and by reducing the financial losses you may incur. We expect the new rule to go into effect shortly.

Credit union officials no doubt are waiting for implementation of the red flag indicators of identity theft. Again, the regulators are working hard to develop guidance for spotting red flag indicators of identity theft in member account transactions. The rule makers understand that the red flags must be easy to update, because the criminals are highly adaptive and constantly developing new techniques.

One last matter. The Treasury is working aggressively with the financial services industry to find more ways to address "phishing" – a form of online identity theft in which criminals pose as a member's financial institution and request sensitive personal information in order to steal funds or to establish new lines of credit using

the member's identity. We have a "Lessons Learned" brochure on detecting and fighting phishing on our website. I also encourage you to look at the NCUA's website for a document entitled "You Can Fight Identity Theft", available in a print ready version that you can distribute to your members, either by printing or by linking it to your website, and also to visit the FTC's website for valuable information.

Closing

Our commitment to you is to continue a dialog, to clearly explain what regulations mean, and to tailor the regulations to both the threat and to the specific sector within the financial services industry. Let us know when we're confusing you, or when we can do better – because the better you understand our regulations, the more successful our efforts will be. Although we continue to have much work to do, we have a bright future ahead of us. Thank you for your time, and for all that each of you do to keep our country safer.

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:SS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
2004-10-13-13-52-0-19129

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $82,817 million as of the end of that week, compared to $82,688 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	October 1, 2004			October 8, 2004		
TOTAL		82,688			82,817	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,204	14,241	25,445	11,240	14,373	25,613
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,060	2,862	13,922	11,080	2,889	13,969
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			19,475			19,423
3. Special Drawing Rights (SDRs) [2]			12,803			12,769
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 1, 2004			October 8, 2004		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets

	October 1, 2004			October 8, 2004		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Accoun (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, a deposits reflect carrying values. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
JS-2025

Treasury Designates Global Network, Senior Officials of IARA for Supporting bin Laden, Others

The U.S. Department of the Treasury today designated the worldwide network of the Islamic African Relief Agency (IARA), along with five senior officials, pursuant to E.O. 13224. This action blocks all accounts, funds and assets of IARA in the United States and criminalizes the provision of money or other types of support to any of its offices.

"This is an excellent example of how U.S. Government agencies coordinate their efforts to achieve the maximum impact against supporters of terrorism. The Treasury Department has been working closely with its colleagues in other agencies to ensure that, as a government, we do everything possible to shut down the flow of money to terrorists," said Stuart Levey, Treasury's Under Secretary for the Office of Terrorism and Financial Intelligence (TFI).

Islamic Africa Relief Agency (IARA)

IARA is headquartered in Khartoum , Sudan and maintains over 40 offices throughout the world, including in the United States .

AKAs: IARA, Islamic Relief Agency, ISRA, Islamic American Relief Agency, Al-Wakala al-Islamiya l'il-Ighatha , Al-Wakala al-Islamiya al-Afrikia l'il-Ighatha

IARA Support for Usama bin Laden (UBL), al Qaida and the Taliban

IARA is identified as a non-governmental organization (NGO) formerly affiliated with Maktab Al-Khidamat (MK), which was co-founded and financed by UBL and is the precursor organization of al Qaida.

Information available to the U.S. indicates that international offices of IARA provided direct financial support for UBL. IARA, MK and UBL commingled funds and cooperated closely in the raising and expenditure of funds. IARA engaged in a joint program with an institute controlled by UBL that was involved in providing assistance to Taliban fighters.

In 2000, one of IARA's Afghanistan leaders accompanied the Afghanistan MK leader on a fundraising trip to Sudan and other locations in the Middle East during which $5 million was raised for MK activities.

Information available to the U.S. shows that the overseas branches IARA provided hundreds of thousands of dollars to UBL in 1999. In 1997, there was an individual who acted as a liaison between UBL and terrorist-related NGOs, distributing funds from UBL to MK, IARA and others. Later that year, IARA and MK reportedly provided financial support for a group of Arab terrorists planning to travel to Saudi Arabia to conduct unspecified operations against U.S. military personnel.

Additionally, information identifies a UBL lieutenant and former MK official as having been the director of IARA's operations in Afghanistan . This individual was identified as an expert in terrorism, bomb planning and guerilla operations.

Information indicates an IARA leader was involved in discussions to help relocate UBL to secure safe harbor for him. Among others, these discussions included representatives for UBL and MK, along with Lajnat al-Dawa (LDI), which is listed as

a Specially Designated Global Terrorist pursuant to E.O. 13224, as well as listed by the UN 1267 Sanctions Committee. In addition, a Sudanese individual traveled to Mali and stayed with an IARA director while assessing whether Mali could serve as a safe harbor for UBL.

IARA Support for Hamas

As of early 2003, information available to the U.S. shows that IARA was responsible for moving funds to the Palestinian territories for use in terrorist activities, notably serving as a conduit to Hamas in one Western European country. In part, funds were raised through IARA collection boxes marked "Allah" and " Israel ," signaling the funds would be directed towards attacks against Israelis.

Within the last year, IARA was reportedly linked to the Belgium office of the Al-Aqsa Foundation, a Specially Designated Global Terrorist, pursuant to E.O. 13224.

IARA Support for Al-Ittihad al-Islamiya (AIAI)

IARA offered financial support for the development of AIAI, which is listed as a Specially Designated Global Terrorist, pursuant to E.O. 13224, as well as listed by the UN 1267 Sanctions Committee.

Senior Officials
Dr. Mohammed Ibrahim Sulaiman
Position: Secretary General, IARA Headquarters, Khartoum, Sudan
Home Address: House Number 27, Block Number 29, Manishia District, Khartoum, Sudan
Mailing Address: P.O. Box 3372, Khartoum, Sudan

Jaffar Ahmad Abdullah Makki
Position: IARA South Asia Region Director
DOB: 1956
POB: Sudan
Passport #1: 079925
Issued: September 7, 1992
Passport #2: A553077
Issued: April 16, 2000

Abdul Aziz Abbakar Muhamad
Position: IARA Peshwar, Pakistan Director
DOB: 1961
POB: Sudan
Passport: 562605
Issued: October 28, 1998

Abbakar Muhamad was identified as one of several individuals involved in IARA's terrorist support operations in South Asia. This support was provided to al Qaida, Gammat al Islamiya and the Taliban and reportedly included money, supplies and housing for terrorists in South Asia. He previously served as the Executive Director of the IARA operating from Afghanistan.

Khalid Ahmad Jumah Al-Sudani
Position: IARA Middle East Regional Director
Location: Amman, Jordan
Passport: H649956
Issued: April 8, 2002

Ibrahim Buisir
Position: IARA Representative in Ireland
Location: Ireland
DOB: circa 1962
POB: Libya

Buisir, originally from Libya, has been IARA's representative in Ireland. Following the 9-11 terrorist attacks, Buisir was arrested by local authorities based on evidence that he provided financial support for the al Qaida network. Information available to the U.S shows that Buisir directed a European al Qaida cell that provided support to

operations in Europe by arranging travel and accommodations.

The entities were designated today pursuant to Executive Order 13224 pursuant to paragraphs (d)(i) and (d)(ii) based on a determination that they assist in, sponsor or provide financial, material, or technological support for, or financial or other services to or in support of, or are otherwise associated with, persons listed as subject to E.O. 13224.

Blocking actions are critical to combating the financing of terrorism. When a target is blocked, all of its assets in the formal financial system must be frozen and it can no longer operate as a conduit to move money to illicit purposes. This, in turn, forces terrorist networks to rely on alternative, more costly and higher-risk means of financing their activities. Blocking actions also expose money trails that may point to previously unknown terrorist cells and financiers and serve as a deterrent to other would-be financiers or donors.

The United States has designated 393 individuals and entities as terrorists, their financiers or facilitators. In addition, the global community has frozen over $142 million in terrorist-related assets.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
JS-2026

Statement by Treasury Secretary John W. Snow on Treasury's Designation of IARA

Treasury Secretary John W. Snow made the following statement today regarding the Treasury Department's designation of the worldwide network of the Islamic African Relief Agency (IARA), along with five of its senior officials:

"The Treasury today designated the global network of the Islamic African Relief Agency along with five of its senior officials. This action marks another crucial step in the United States Government's continuing efforts to close down the conduits that allow terrorists to raise and move money.

"The international offices of IARA were providing direct financial support to Usama bin Laden, al Qaida, Hamas and other terrorist groups. Today's action shuts down financial channels that were being used to propagate terrorist activity.

"This action again reveals the intent by terrorists to abuse charitable networks and organizations for their evil purposes.

"In designating IARA, Treasury blocked all accounts, funds and assets of the organization in the United States and criminalized the provision of money or other types of support to any of its offices.

"Today's action highlights the important role of designations in the war on terrorist finance – freezing assets that might otherwise have been used to support terrorists; preventing future funds from flowing through tainted channels; and making clear to the public and our international partners the conduits being used to fuel terrorism.

"The designation process is a key weapon in our arsenal to combat terrorism; however, it represents just one of the tools at our disposal. A host of U.S. Government agencies work hand-in-hand to combat terrorist networks from every angle of attack. The tools and expertise of our colleagues in law enforcement agencies, as well as the intelligence and diplomatic communities, all play indispensable roles in this fight.

"Actions like the one taken today make it costlier and riskier for al Qaida and other terror groups to raise and move money. Under President Bush's leadership, we have designated 393 individuals and entities as terrorists or their facilitators and, working in concert with our global partners, we have frozen over $142 million in terrorist-related assets.

"The financial war on terror is fought on a different kind of battlefield, one that includes formal financial institutions, as well as shadowy underground networks that the terrorist use to move money. Terrorists are fueled by hate, but money allows terrorists to carry out their vile plans. Therefore our efforts to staunch terrorist financing are a vital part of the overall war on terror. The Bush Administration remains committed to using any means necessary to stop terrorists in their tracks, and the Treasury will continue to wield all of its authorities to bankrupt terror," said Snow.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
js-2027

Statement from Secretary John Snow on Comments Made in Findlay, Ohio on October 11, 2004

I regret that recent remarks of mine have been misconstrued by critics of the Administration. Let me be clear, I regret the loss of any job. I know what it is like to lose a job. I know the pain it brings. That is why our focus every day is to put in place policies that will create jobs. In my comments, I was responding to criticisms of the President's economic policies and unfounded comparisons that are being made. Those charges are simply not credible.

The President inherited an economy in sharp decline and collapsing stock market bubble. Just as the economy was beginning to recover, it was hit by 9/11 and the corporate scandals. The President's leadership and policies turned this economy around and put it on a strong upward path. This was the key point I was making.

Since the President's policies have been implemented, we've seen continued strong economic growth: 13 straight months of job creation; an unemployment rate down to 5.4% -- lower than the average of the 1970s, 1980s, and 1990s; the highest level of home ownership in history; low inflation and low interest rates. Clearly this is a strong record.

We need to continue with the President's pro-growth policies that are working -- not raise taxes as some have suggested. Raising taxes would be a burden for families, hurt America's job creators and be a setback for the economy.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 13, 2004
js-2028

Treasury Deputy Assistant Secretary Iannicola Teaches Savings and Investment Lesson to High School Students in Weare, New Hampshire

Treasury's Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr. today taught a financial education lesson on the topic of savings and investment to John Stark Regional High School students in Weare, New Hampshire. While there, Iannicola also led a financial education roundtable hosted by the New Hampshire Jump$tart Coalition and discussed federal financial education resources, which can be used to integrate personal finance lessons into different class subjects and settings.

John Stark Regional High School students learned basic savings and investment concepts. Iannicola commended New Hampshire school administrators and educators that are working to improve and integrate financial education in their schools. He also thanked grass roots organizations like the New Hampshire Jump$tart Coalition for supporting these schools in their efforts to improve financial literacy. "The financial futures of New Hampshire kids are in good hands." Iannicola continued, "Young people who graduate high school without exposure to financial education risk making costly mistakes as adults. By contrast, those who are exposed to financial concepts early on can look forward to a more secure, more prosperous future."

While in New Hampshire, Iannicola also addressed the board of the New Hampshire Jump$tart Coalition, a non-profit organization that seeks to improve the personal financial literacy of young people. Its board members include the State of New Hampshire Insurance Department, the University of New Hampshire Cooperative Extension, New Hampshire Partners in Education, TIAA-CREF and Consumer Credit Counseling of New Hampshire and Vermont, Inc. Iannicola encouraged their continued commitment to improving financial education in the state. He also discussed with them Treasury's Office of Financial Education's perspective on the importance of improving financial literacy and how these organizations can continue to expand financial education efforts.

During the roundtable, Iannicola heard from the participants and learned about their financial education initiatives. In turn, Iannicola provided the participants with detailed information about existing and new financial education resources available through the federal government, including those offered by the Treasury Department, as well as by nineteen other federal agencies that comprise the Financial Literacy and Education Commission. First, he urged the participants to visit www.mymoney.gov, which is a new national service launched yesterday by the Financial Literacy and Education Commission. Second, he urged the participants to consider responding to Treasury's request for public comment on what the national financial education strategy should be. Finally, he told them about Treasury's new Technical Assistance Center, which Iannicola described as a place where those with an interest in financial education can receive input on program design and available resources, explore partnerships with other organizations and learn about best practices in financial education. Both the request for public comment and the Technical Assistance Center can be accessed at www.treasury.gov/financialeducation.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education ("Office") in May 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and

Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treasury.gov/financialeducation.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 14, 2004
JS-2029

Letter from Secretary Snow to Congress Regarding Debt Limit

The Honorable
Bill Frist Majority Leader
United States Senate
Washington, DC 20515

REPORTS

- Frist pdf

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

October 14, 2004

The Honorable Bill Frist
Majority Leader
United States Senate
Washington, DC 20515

Dear Senator Frist:

On August 2, 2004, I wrote to Congress regarding the need to increase the statutory debt limit. Because the debt limit has not been raised, I must inform Congress, pursuant to 5 U.S.C. 8438(h)(2), that it is my determination that, by reason of the public debt limit, I will be unable to fully invest the Government Securities Investment Fund ("G-Fund") of the Federal Employees Retirement System in special interest-bearing Treasury securities, beginning on October 14, 2004. The statute governing G-Fund investments explicitly authorizes the Secretary of the Treasury to suspend investment of the G-Fund to avoid breaching the statutory debt limit. Such a suspension action has been taken in the past by my predecessors and by me.

G-Fund beneficiaries are fully protected and will suffer no adverse consequences from this action. The statute ensures that once the Secretary of the Treasury can make the G-Fund whole without exceeding the public debt limit, he is to do so. Under the governing law in this case, the G-Fund will receive complete restoration of all funds temporarily affected by this necessary action, including full and automatic restoration of any interest that would have been credited to the Fund. Consequently, once I am able to make the G-Fund whole, the effect on the G-Fund and its beneficiaries will be the same as if this temporary action had never taken place.

Given current projections, it is imperative that the Congress take action to increase the debt limit by mid-November, at which time all of our previously used prudent and legal actions to avoid breaching the statutory debt limit will be exhausted. I know that you share the President's and my commitment to maintaining the full faith and credit of the U.S. Government.

Sincerely,

John W Snow

John W. Snow

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 14, 2004
JS-2030

Implementing Reforms that Drop and Stop the Debt of the Heavily Indebted Poor Countries
John B. Taylor
Under Secretary of Treasury for International Affairs
Remarks at the Poverty and Debt Relief Photo Exhibit
United States Senate
October 14, 2004

It is a pleasure to join you here today. I want to thank all of you for the help and advice that you have given to the Bush Administration, and the Treasury in particular, in our efforts to help poor countries address their serious debt problems, especially their debts to the international financial institutions. I have benefited from many interactions with you in my office at Treasury and elsewhere.

The Reform Agenda So Far

It was more than three years ago that President Bush--in a speech at the World Bank in July 2001--made a proposal that in his words "doesn't merely drop the debt; it stops the debt" of the poorest countries. The proposal called for a dramatic increase in grant funding to the world's poorest countries from the multilateral development banks.

I recall the welcoming support that many of you gave to that proposal and the help you gave us in winning essential international support in a very tough and skeptical environment. It took about a year, but with this help, the Bush Administration was able to win broad international support and thereby substantially shift funding from loans to grants at IDA and the African Development Fund. And this summer we obtained agreement at the Asia Development Fund for substantially increased grant funding. The aim of the President's proposal was to augment the heavily indebted poor country program by reducing the amount of debt counties would accumulate in the future.

Assessing Progress

Now, three years later, we are able to assess how this new grants program is working, and I have made several trips to Africa this year to do just that. Experts from the World Bank and from the U.S. Treasury have accompanied me on these trips. We visited schools, health care centers, and small village construction projects. We traveled to some of the world's poorest rural villages (especially in Niger) and some of the world's worst urban slums (especially in Nairobi). We talked with village chiefs, teachers, principals, nurses, doctors, AIDS patients, and school children and their parents. We talked with finance ministers--Kaberuka of Rwanda, Mwiraria of Kenya, Zeine of Niger, and Diop of Senegal, Osafo-Maafo of Ghana, and Manuel of South Africa--and asked how they assessed the new grants programs from IDA and from the African Development Fund. We also met with health ministers and education ministers, and we interviewed World Bank people responsible for administering the programs.

I am happy to report that President Bush's new grants initiative is very popular and enormously well received in all the places we visited, especially by those in the heavily indebted countries. They like how the grants deal with the debt problem. But they also pointed to other advantages of grants, including fewer bureaucratic hurdles and a greater show of support by donors. The Health Minister in Rwanda (where the grants were for HIV/AIDs) was particularly appreciative of what he called the "Bush Grants." The Education Minister in Kenya (where the grants are used to buy textbooks) said he was surprised, thrilled, and grateful that the World Bank had

given grant support. The Finance Minister of Niger concluded our meeting by saying, "Long Live the Doctrine of Grants." They all thanked the U.S. because they knew that these grants would not exist had President Bush not proposed them.

Next Steps: Completing the Reform Agenda

Based on this success we would like to work with the international community to implement additional reforms to help countries fully achieve debt sustainability. Debt sustainability is a prerequisite for private investment, economic growth, and the reduction of poverty. In a nutshell, we need to complete the "drop the debt and stop the debt" vision put forth by President Bush at the start of his administration.

How do we do this? As Secretary Snow indicated in a recent speech at the Bretton Woods Committee, we should help poor countries make their debt sustainable and we should not make loans (as they are made now) when it is highly probable that they will be forgiven. To do so, we should substantially increase both grant financing and debt relief--up to 100 percent--from the international financial institutions. Moving boldly in this way would give lagging countries an opportunity to wipe the slate clean and begin anew following a prudent and sustainable path to financing development.

In addition, at the IMF we should create a new non-borrowing facility aimed at promoting strong country ownership. Such a facility would allow the IMF to work with countries to set and assess policy benchmarks in the absence of further debt accumulation. This would strengthen the IMF as an institution of international economic cooperation where each country assumes its responsibility for growth and stability.

As we engage with the international community, we must insist that no reform inadvertently causes a reduction in the funding for poor countries. On the contrary, with these additional reforms we feel we can greatly improve the case for additional support for effective development assistance to the poorest countries, and thereby increase economic growth, reduce poverty, and improve the lives of people around the globe.

I am looking forward to working with you as we continue our reform agenda.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 14, 2004
js-2031

Treasury Designates North Valle Drug Cartel Traffickers

The U.S. Department of the Treasury targeted the financial network of the North Valle drug cartel by adding two of its leaders, Gabriel Puerta Parra and Luis Antonio Hernandez Zea, to the list of Specially Designated Narcotics Traffickers (SDNTs). SDNTs are subject to the economic sanctions imposed against Colombian drug cartels in Executive Order 12978.

"With actions like today's, the U.S. Government is helping to topple the financial empires of drug cartels in Colombia and around the world. This designation exposes and undermines the financial network of the North Valle drug cartel in Colombia and denies these drug lords and their businesses access to the U.S. financial sector," said Juan Zarate, Treasury's Assistant Secretary for Terrorist Financing and Financial Crimes.

"DEA is steadfast in its mission to strip illicit profits from the organizations that supply illegal drugs to the United States. Today's action is a testament to our partnership with OFAC and our foreign law enforcement counterparts. The power of combining the enforcement tools of DEA with the immense regulatory authority of the Treasury Department casts a shadow from which drug traffickers cannot hide," said Karen P. Tandy, Administrator of the Drug Enforcement Administration (DEA).

Puerta Parra is a leading member of the North Valle drug cartel and is the subject of two federal criminal indictments in the United States, both unsealed earlier this year. The indictments filed in the District Court for the District of Columbia and the Southern District of Florida charge Puerta Parra with violations of the Racketeer Influenced and Corrupt Organizations Act and with conspiracy to import, possess and distribute cocaine in the United States. On October 7, 2004, Colombian National Police arrested Puerta Parra near Bogota, Colombia. He is currently awaiting extradition to the United States. Considered the statesman of the North Valle cartel, Puerta Parra has long played an influential role among drug cartel leaders, including resolving disputes within the North Valle cartel and with other drug cartels.

"We are financially isolating Puerta Parra, his business associates, and his facilitators and wiping away the veneer of legitimacy of any of their activities," Zarate continued.

In addition, the Colombian airline, *Intercontinental de Aviacion S.A.*, and 14 other North Valle cartel businesses were also added to the list of SDNTs today. These entities were designated as they are owned or controlled by Puerta Parra and Hernandez Zea, as well as Piedad Velez Rengifo, the widow of deceased North Valle cartel kingpin Jose Orlando Henao Montoya.

Intercontinental de Aviacion S.A. is a small, regional Colombian airline that has facilitated the North Valle cartel's drug trafficking and money laundering activities since the late 1980s. The network also includes two key offshore companies, *Largo Leasing Limited* in the Cayman Islands and *Trans Pacific World Leasing Limited* in Vanuatu, which are incorporated by and directly support *Intercontinental de Aviacion*. The other front companies announced today include a mining company, *Industrial Minera y Pecuaria S.A.*, two financial investment firms, *Accirent S.A.*, and *Comercializadora Andino Brasilera S.A.*, a civil engineering firm, *Inversiones y Comercializadora Incom Ltda.*, an airline finance company, *Intercontinental de Financiacion Aerea S.A.*, an aircraft parts supplier, *Aerocomercial Alas de Colombia*

Ltda., a travel services provider, *Asociacion Turistica Internacional S.C.S.*, and a hotel management company, *Cia. Constructora y Comercializadora del Sur Ltda.*, all of which are located in Columbia.

Also designated today are 14 individuals who act as agents for Gabriel Puerta Parra , Luis Antonio Hernandez Zea and Piedad Velez Rengifo in the designated companies. Today's action freezes any assets found in the United States and prohibits all financial and commercial transactions between the designated persons and entities and any U.S. person.

A total of 417 Colombian drug cartel businesses are now on the SDNT list. The list also includes the paso fino horse farm *Criadero La Luisa E.U.*, the industrial paper manufacturer *Unipapel S.A.*, the agro-industrial business *Viscaya Ltda.*, the *Obursatiles* stock brokerage firm, and the *America de Cali* professional soccer team, as well as other agricultural, pharmaceutical, consulting, construction, distribution, financial, investment, manufacturing, mining, real estate and service firms.

This action is part of the ongoing interagency effort, that includes the Departments of the Treasury, Justice, State and Homeland Security, to implement Executive Order 12978, signed on October 21, 1995, which applies economic sanctions against Colombia's drug cartels. Today's announcement is a result of the Treasury Department's Office of Foreign Assets Control's continuing close working relationship with U.S. law enforcement authorities, and particularly, in this case, DEA field offices in Phoenix and Miami. The U.S. government continues to work with and support the Colombian government in attacking the finances of Colombia's drug cartels.

The assets of a total of 1,125 businesses and individuals in Colombia, Costa Rica, Ecuador, Panama, Peru, Spain, Vanuatu, Venezuela, the Bahamas, the British Virgin Islands, and the Cayman Islands, are now blocked under E.O. 12978. The SDNT list includes 16 kingpins from the Cali, North Valle, and North Coast drug cartels in Colombia, including Gabriel Puerta Parra and Luis Antonio Hernandez Zea.

For a complete list of the entities designated today, please visit:

http://www.treas.gov/offices/enforcement/ofac/actions/

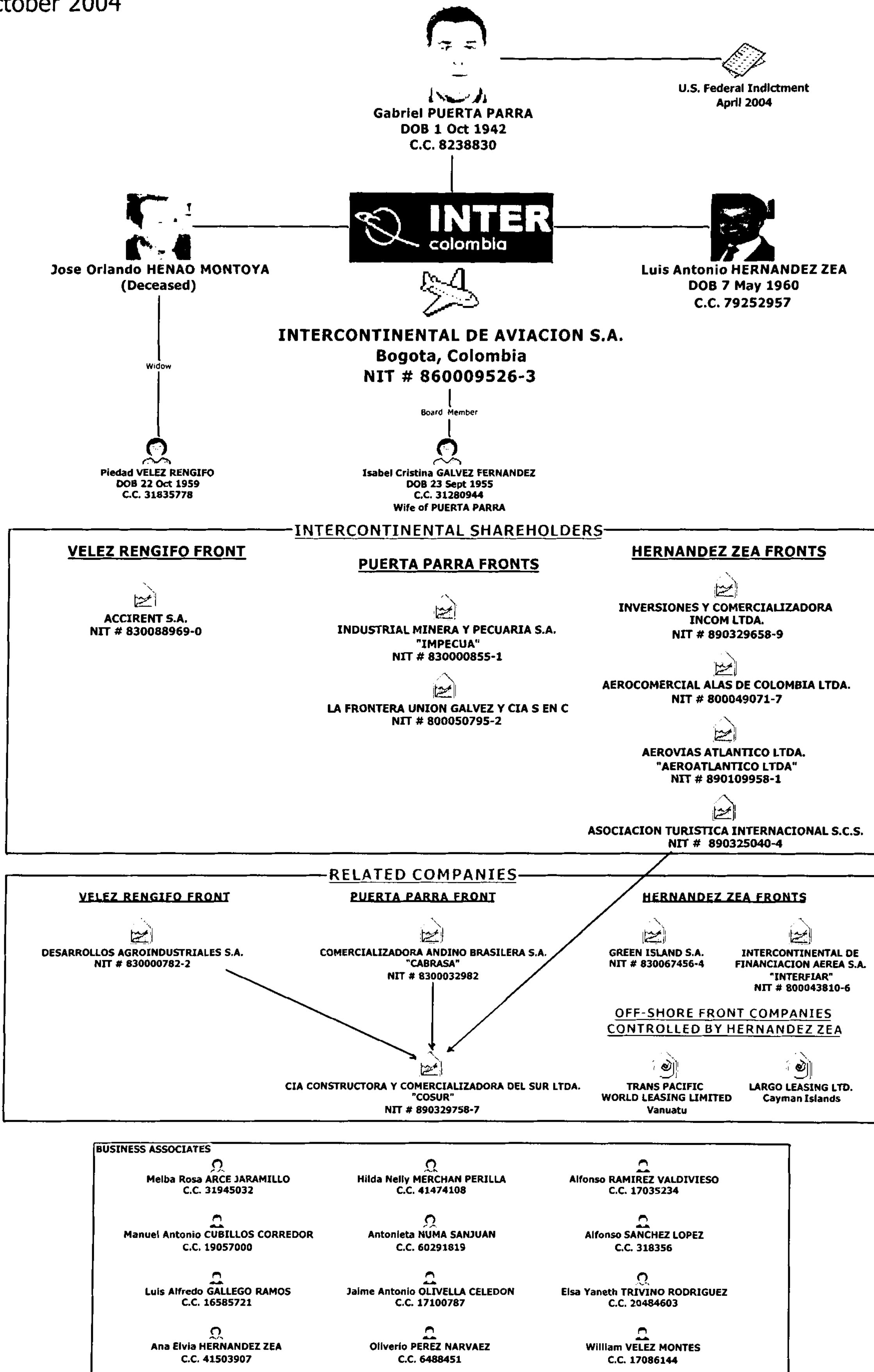
LINKS

- Diagram of the North Valle Drug Cartel Financial Network

North Valle Drug Cartel
Financial Network

October 2004

Department of the Treasury
Office of Foreign Assets Contro



PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 14, 2004
JS-2032

Joint Statement of
John W. Snow,
Secretary of the Treasury,
and
Joshua B. Bolten,
Director of the Office of Management and Budget,
on
Budget Results for Fiscal Year 2004

SUMMARY

The Administration today is releasing the September 2004 Monthly Treasury Statement of Receipts and Outlays of the United States Government[1]. The statement shows the actual budget totals for the fiscal year that ended September 30, 2004, as follows:

- A deficit of $413 billion;
- total receipts of $1,880 billion; and
- total outlays of $2,292 billion.

[1] The September 2004 Monthly Treasury Statement of Receipts and Outlays of the United States Government containing these results can be found on the Financial Management Service website at: www.fms.treas.gov.

LINKS

- Budget Results for FY 2004

REPORTS

- Joint Statemen of John W. Snow Secretary of the Treasury and Joshua B. Bolten Director of the Office of Management and Budget on Budget Results for Fiscal Year 2004
- FY 2004 Budget Charts

EMBARGOED UNTIL 3:30 P.M. EDT
October 14, 2004

Treasury Contact: Rob Nichols
(202) 622-2920
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JOINT STATEMENT OF
JOHN W. SNOW,
SECRETARY OF THE TREASURY,
AND
JOSHUA B. BOLTEN,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET,
ON
BUDGET RESULTS FOR FISCAL YEAR 2004

SUMMARY

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(MORE)

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[1] The September 2004 Monthly Treasury Statement of Receipts and Outlays of the United States Government containing these results can be found on the Financial Management Service website at: www.fms.treas.gov.

"We are encouraged by the progress our economy has made – GDP is growing, more than 1.9 million new jobs have been created in the past 13 months, unemployment rates are below the averages of the 1970's, 1980's, and 1990's, homeownership is at an all-time high, and government receipts are rising. All of this shows that the President's tax relief initiatives are having the intended effects.

With the economy performing better, the deficit is lower than originally forecast in the Mid-Session Review and the President's FY 2005 Budget. The combination of a growing economy bringing in increased revenues, along with tight controls on spending, will enable us to reach the President's goal of cutting the budget deficit in half in five years, bringing it to a level that will be low by historical standards at less than 2 percent of GDP."

- Secretary John W. Snow

"The improvement in the Nation's budget picture since the President's Budget was released last February is a clear reflection of our strengthening economy and improving fiscal performance. While the deficit is unwelcome, if we stick with the President's plan of economic growth and spending discipline, we will continue to see improvement and we will cut the deficit by more than half in five years. The President's budget policies have steadily reduced the growth of discretionary spending in non-defense, non-security-related areas of the budget. And thanks to tax relief, regulatory reform, and expanded international trade, the economy is strong and this year's deficit is below the level previously forecast by the Administration, the Congressional Budget Office, and private forecasters."

- Director Joshua B. Bolten

Table 1. TOTAL RECEIPTS, OUTLAYS AND SURPLUS/DEFICIT (-)
(in billions of dollars)

	Receipts	Outlays	Surplus/Deficit (-)
2003 Actual	1,782	2,159	-377
FY 2004 Estimates:			
FY 2005 Budget	1,798	2,319	-521
FY 2005 Mid-Session Review	1,874	2,319	-445
Actual	1,880	2,292	-413

NOTE: Details may not add to totals due to rounding. The FY 2003 deficit is $2 billion higher than previously reported due to a retroactive accounting revision in Federal Communications Commission outlays.

The FY 2004 unified deficit was $413 billion, or an estimated 3.6 percent of the Gross Domestic Product (GDP). As a percent of GDP, the 2004 deficit is lower than the deficits

of nine of the last 25 years. The deficit for FY 2004 is $32 billion, or 7.2 percent, lower than projected in the Mid-Session Review (MSR). Receipts were higher by $5 billion and outlays were lower by $27 billion. The deficit is $108 billion, or 20.8 percent, lower than projected less than a year ago in the FY 2005 Budget. Receipts were higher by $82 billion and outlays were lower by $27 billion.

Receipts in 2004 were 5.5 percent higher than in 2003, the first increase in receipts since 2001. Outlays grew by 6.2 percent above the previous year, lower than the prior year's growth rate of 7.4 percent.

RECEIPTS

Total receipts for FY 2004 were $1,880 billion, $5 billion higher than the MSR estimate of $1,874 billion. Nearly $3 billion of this increase was attributable to higher-than-estimated collections of corporation income taxes and social insurance and retirement receipts, which were partially offset by lower-than-estimated collections of individual income taxes. Most of the remaining increase was attributable to higher-than-expected collections of estate and gift taxes and miscellaneous receipts. Table 2 displays actual receipts and estimates from the Budget and the MSR by source.

Individual income taxes were $809 billion, $7 billion lower than the MSR estimate. This decrease was due in large part to lower-than-estimated payments of withheld taxes and higher-than-estimated refunds. Reallocations of receipts from the Social Security and Medicare Trust Funds to individual incomes taxes were lower-than-expected and accounted for about $2 billion of the shortfall in individual income taxes. These reallocations, which are accounting adjustments based on more recent data, did not change the overall level of receipts, only the allocation of collections between individual income taxes and the social insurance trust funds (see the discussion of social insurance and retirement receipts below).

Corporation income taxes were $189 billion, $8 billion greater than the MSR estimate. Under the Economic Growth and Tax Relief Reconciliation Act, corporations were allowed to delay 20 percent of the estimated payment otherwise due on September 15, 2004 until October 1, 2004. Delayed payments were $2 billion less than expected, which increased fiscal year 2004 collections by $2 billion relative to the MSR. Higher-than-expected payments, unrelated to timing delays, and lower-than-estimated refunds accounted for most of the remaining increase of $6 billion.

Social insurance and retirement receipts were $733 billion, $2 billion higher than the MSR estimate. This increase was primarily attributable to lower-than-expected reallocations of receipts from the Social Security and Medicare Trust Funds to individual income taxes. The adjustment offsets the adjustment to individual income taxes described above; there is no impact on total receipts.

Estate and gift taxes and miscellaneous receipts each exceeded the corresponding MSR estimate by $1 billion.

OUTLAYS

Total outlays were $2,292 billion, $27 billion or 1.2 percent below the MSR estimate. Most agency outlays were down from the MSR, although increases occurred in Defense operations and maintenance and the Department of Justice. Table 3 displays actual outlays by agency and major program as well as estimates from the Budget and the MSR. The largest changes in outlays were in the following areas:

- Department of Health and Human Services – Actual outlays for the Department of Health and Human Services were $543 billion, $9 billion lower than the MSR estimate. Actual Medicare outlays were $2 billion lower than the MSR estimate. This reflects the net impact of lower spending for Medicare Part A and Medicare's Transitional Prescription Drug Assistance, partly offset by higher spending for Medicare Part B. Although FY 2004 outlays for Medicaid were nearly 9.7 percent higher than in FY 2003, the outlays were $4 billion less than the MSR estimate, which assumed an even higher rate of growth in State spending. Outlays for the Temporary Assistance for Needy Families program were $1 billion less than the MSR estimate as a result of slower-than-expected spending by States.

- Department of Agriculture – Actual outlays for the Department of Agriculture were $72 billion, a decrease of $4 billion from the MSR estimate. Commodity Credit Corporation (CCC) outlays were $2 billion below the MSR estimate due to higher-than-anticipated surplus commodity sales proceeds and loan repayments for the commodity marketing loans, lower-than-anticipated storing and handling costs, and lower-than-expected payments for Non-Insured Assistance Payments and environmental programs. Net outlays for the Rural Utilities Service were $1 billion below the MSR mainly due to increased collections of borrower prepayments on pre-Credit Reform loans, as borrowers refinanced at current low interest rates. Crop insurance outlays were $1 billion lower because crop insurance losses were lower than forecast. Food and Nutrition Service outlays of $1 billion below the MSR estimates were caused by lower-than-anticipated costs for Child Nutrition and Food Stamps.

- Department of Homeland Security – Outlays for the Department of Homeland Security were $27 billion in FY 2004, $4 billion below the MSR estimate. Much of this difference is attributable to the rate at which state and local governments have drawn down obligations of grant funds. Outlays for Science and Technology and Emergency Preparedness and Response were $1 billion lower in FY2004 than estimated as a result of later-than-anticipated signing of Inter-Agency agreements and obligations of funds for the Flood Map Modernization program.

- Department of Defense - Military – In FY 2004, outlays for the Department of Defense – Military were $437 billion, an increase of $3 billion from the MSR estimate. This difference can be attributed primarily to higher-than-anticipated fuel prices as well as the increased operational activity resulting from the Global War on Terror.

- Department of Education – Department of Education outlays in FY 2004 were $63 billion, $3 billion below the MSR estimates. Most of this decrease was in the Office of Elementary and Secondary Education, and was attributable to slower-than-anticipated State implementation of some elementary and secondary education programs.

- Department of Transportation – Department of Transportation outlays were $55 billion in FY 2004, $3 billion below the MSR estimate. Outlays were $1 billion below the MSR for the Federal Highway Administration due to the delayed enactment of pending surface transportation legislation that prevented the obligation of some funding for the Federal-aid Highway Program. Federal Aviation Administration (FAA) outlays were $1 billion below MSR estimates due to slower-than-anticipated obligation and spending of funds for capital modernization and airport grants.

- Department of Justice – FY 2004 outlays for the Department of Justice were $29 billion, up $3 billion from the MSR estimates. The largest difference, $1 billion, was in the Federal Bureau of Investigation, due to stronger funds management and improved adherence to project schedules. Outlays for the Office of Justice Programs were $1 billion higher than anticipated because State and local agencies are submitting requests for reimbursement more quickly than in previous years.

- International Assistance Programs – In FY 2004, outlays for International Assistance Programs were $14 billion, $3 billion less than the MSR estimate. A large difference, as in previous years, was in the International Monetary Program, which was $1 billion lower than the MSR estimate due to valuation changes in the U.S. reserve position (which is similar to a deposit) in the International Monetary Fund (IMF). Outlays for the Foreign Military Sales program were $1 billion lower than the MSR due to higher-than-estimated payments that arrived in the last quarter of FY 2004. Other differences from the MSR estimates included slight decreases in outlays for Foreign Military Financing and other International Assistance Programs, and in the U.S. Agency for International Development.

- Federal Communications Commission – FY 2004 Federal Communications Commission (FCC) outlays were $4 billion, $3 billion less than the MSR estimate. Actual outlays for the Universal Service Fund (USF) were $3 billion, $3 billion lower than the MSR estimate. This difference was largely related to a transition from private sector to government reporting standards. As part of the transition, USF cash balances previously held in non-Federal money market funds were moved into Federal investments to ensure sufficient budgetary resources to

meet program obligations. The redemption of non-Federal securities resulted in lower net outlays in 2004.

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Table 2.--2004 BUDGET RECEIPTS BY SOURCE
(fiscal years; in millions of dollars)

Receipts by Source	2003	2004			Change, 2004 Actual from:	
		Estimate				
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Individual income taxes	793,699	765,399	816,296	808,958	43,559	-7,338
Corporation income taxes	131,778	168,741	181,503	189,370	20,629	7,867
Social insurance and retirement receipts:						
Employment and general retirement:						
On-budget	151,139	154,425	153,969	154,615	190	646
Off-budget	523,842	534,004	533,514	534,744	740	1,230
Subtotal, Employment and general retirement	674,982	688,429	687,483	689,359	930	1,876
Unemployment insurance	33,366	39,227	39,016	39,453	226	437
Other retirement contributions	4,631	4,736	4,736	4,596	-140	-140
Subtotal, Social insurance and retirement receipts	712,979	732,392	731,235	733,408	1,016	2,173
Excise taxes	67,522	70,776	69,727	69,851	-925	124
Estate and gift taxes	21,959	23,909	23,601	24,831	922	1,230
Customs duties	19,862	22,595	21,197	21,083	-1,512	-114
Miscellaneous receipts	34,309	34,281	30,854	32,299	-1,982	1,445
Adjustment for revenue uncertainty	0	-20,000	0	0	20,000	0
Total, Receipts	1,782,108	1,798,093	1,874,413	1,879,799	81,706	5,386
On-budget	1,258,265	1,264,089	1,340,899	1,345,055	80,966	4,156
Off-budget	523,842	534,004	533,514	534,744	740	1,230

NOTE: Detail may not add to totals or changes due to rounding.

Table 3.--2004 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	2003 Actual	2004 Estimate Budget	2004 Estimate Mid-Session	2004 Actual	Change, 2004 Actual from: Budget	Change, 2004 Actual from: Mid-Session
Legislative Branch	3,420	4,269	4,269	3,880	-389	-389
The Judiciary	5,123	5,306	5,358	5,396	90	38
Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation	17,421	14,833	12,306	10,567	-4,266	-1,739
Other	923	947	947	778	-169	-169
Food and Nutrition Service:						
Food stamps	25,325	29,044	29,081	28,624	-420	-457
Other	15,771	16,487	16,707	16,369	-118	-338
Risk Management Agency	3,347	4,034	3,957	3,269	-765	-688
Rural utilities service	-2,703	-1,453	-1,453	-2,169	-716	-716
Foreign agriculture service	840	1,058	1,058	1,438	380	380
Agriculture Marketing Service	1,433	1,141	1,141	1,089	-52	-52
Forest Service	5,147	5,174	5,174	5,481	307	307
Offsetting receipts	-3,056	-2,952	-2,528	-2,529	423	-1
Other	8,033	9,426	9,136	8,798	-628	-338
Subtotal, Agriculture	72,483	77,739	75,526	71,714	-6,025	-3,812
Commerce	5,680	6,194	6,194	5,853	-341	-341
Defense-Military:						
Military Personnel	106,746	117,352	115,765	113,576	-3,776	-2,189
Operations and Maintenance	151,430	165,719	165,719	174,018	8,299	8,299
Procurement	67,925	77,687	77,687	76,217	-1,470	-1,470
Research, Development, Test, and Evaluation	53,102	60,593	60,593	60,756	163	163
Revolving and management funds	-265	4,827	4,827	2,372	-2,455	-2,455
Other	9,953	9,496	9,496	10,173	677	677
Subtotal, Defense-Military	388,891	435,674	434,087	437,111	1,437	3,024
Education:						
Office of Elementary and Secondary Education	19,751	24,968	23,968	21,293	-3,675	-2,675
Office of Special Education and Rehabilitative Services	11,528	12,482	12,482	12,816	334	334
Office of Postsecondary Education	2,132	2,379	2,379	2,247	-132	-132
Office of Federal Student Aid	20,424	19,067	22,750	22,877	3,810	127
Other	3,565	3,919	3,919	3,581	-338	-338
Subtotal, Education	57,400	62,815	65,498	62,814	-1	-2,684
Energy:						
Atomic energy defense activities	15,480	16,129	16,132	16,083	-46	-49
Other	3,905	4,494	4,485	3,891	-603	-594
Subtotal, Energy	19,385	20,623	20,617	19,974	-649	-643
Health and Human Services:						
Medicare (gross outlays)	277,875	302,619	303,801	301,505	-1,114	-2,296

Table 3.--2004 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	2003	2004			Change, 2004 Actual from:	
		Estimate				
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Medicaid	160,693	177,282	180,163	176,231	-1,051	-3,932
State children's health insurance fund	4,335	5,232	4,997	4,607	-625	-390
Public Health Service	41,239	44,040	44,128	44,418	378	290
Temporary assistance for needy families and payments to States for child support enforcement and family support programs	23,141	22,964	22,636	21,540	-1,424	-1,096
Other Administration for Children and Families	24,404	24,710	24,710	24,466	-244	-244
Other	-26,277	-28,949	-28,705	-29,550	-601	-845
Subtotal, Health and Human Services	505,410	547,898	551,730	543,215	-4,683	-8,515
Homeland Security:						
Transportation Security Administration	8,261	2,810	2,810	2,839	29	29
Other border and transportation security	8,579	10,197	10,197	11,036	839	839
Coast Guard	6,093	6,372	6,372	6,842	470	470
Emergency Preparedness and Response	8,780	4,774	4,774	4,315	-459	-459
Departmental Management	868	4,925	4,925	2,442	-2,483	-2,483
Science and Technology	86	1,293	1,293	432	-861	-861
Other	-824	292	332	-1,242	-1,534	-1,574
Subtotal, Homeland Security	31,843	30,663	30,703	26,665	-3,998	-4,038
Housing and Urban Development:						
Public and Indian Housing Programs	29,522	30,988	30,888	30,523	-465	-365
Federal Housing Administration	-689	4,420	5,078	5,183	763	105
Other housing programs	1,062	1,154	1,154	859	-295	-295
Community Planning and Development	8,662	9,598	9,160	8,590	-1,008	-570
Other	-1,088	17	17	-130	-147	-147
Subtotal, Housing and Urban Development	37,470	46,177	46,297	45,024	-1,153	-1,273
Interior	9,204	9,965	9,716	9,065	-900	-651
Justice:						
Office of Justice Programs	4,395	3,808	3,808	4,710	902	902
September 11th victims compensation	709	3,928	6,471	6,309	2,381	-162
Federal Bureau of Investigations	4,216	3,767	3,767	4,927	1,160	1,160
Other	16,672	11,985	11,985	13,005	1,020	1,020
Subtotal, Justice	21,775	23,488	26,031	28,950	5,462	2,919
Labor:						
Training and employment services	5,972	5,600	5,600	5,606	6	6
Unemployment trust fund	58,392	49,377	45,834	46,323	-3,054	489
Pension Benefit Guaranty Corporation	229	-55	422	-171	-116	-593
Employment Standards Administration	2,350	2,567	2,568	2,486	-81	-82
Other	2,649	2,460	2,289	2,540	80	251
Subtotal, Labor	69,592	59,949	56,713	56,784	-3,165	71
State:						

Table 3.--2004 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	2003	2004			Change, 2004 Actual from:	
		Estimate				
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Administration of Foreign Affairs	5,941	7,053	7,053	7,233	180	180
International organizations and conferences	1,837	1,989	1,989	1,870	-119	-119
Other	1,479	2,259	2,259	1,844	-415	-415
Subtotal, State	9,257	11,301	11,301	10,947	-354	-354
Transportation:						
Federal Highway Administration	30,773	32,048	32,048	30,666	-1,382	-1,382
Federal Transit Administration	4,926	8,570	8,570	8,011	-559	-559
Federal Aviation Administration	12,561	14,015	14,015	12,835	-1,180	-1,180
Other	2,549	3,377	3,377	3,027	-350	-350
Subtotal, Transportation	50,808	58,010	58,010	54,539	-3,471	-3,471
Treasury:						
Exchange Stabilization Fund	-961	-484	-484	-604	-120	-120
Interest on the public debt	318,149	319,157	320,965	321,566	2,409	601
IRS:						
Earned income tax credit	31,961	33,551	33,383	33,134	-417	-249
Child tax credit	6,435	7,447	8,899	8,857	1,410	-42
Other	13,112	13,361	15,533	15,403	2,042	-130
Financial Management Service:						
Temporary State Fiscal Relief Fund	5,000	5,000	5,000	5,000	0	0
Payment to Resolution Funding Corporation	1,717	1,707	2,217	2,187	480	-30
Other	6,158	5,850	5,876	5,481	-369	-395
Federal Financing Bank	1,303	-962	-962	-1,043	-81	-81
Offsetting receipts	-18,210	-17,380	-17,521	-16,905	475	616
Other	1,859	1,734	1,858	1,722	-12	-136
Subtotal, Treasury	366,523	368,981	374,764	374,797	5,816	33
Department of Veterans Affairs	56,892	60,318	59,372	59,550	-768	178
Corps of Engineers	4,749	4,308	4,308	4,842	534	534
Other defense civil programs	39,881	41,881	41,881	41,754	-127	-127
Environmental Protection Agency	8,065	8,129	8,379	8,335	206	-44
Executive Office of the President:						
Iraqi relief and reconstruction fund	58	6,274	2,401	3,006	-3,268	605
Other	330	338	338	303	-35	-35
Subtotal, Executive Office of the President	388	6,612	2,739	3,309	-3,303	570
General Services Administration	323	778	778	-403	-1,181	-1,181
International Assistance Programs:						
International Security Assistance:						
Foreign Military Financing	5,748	5,432	5,432	5,302	-130	-130
Economic Support Fund	3,429	3,760	2,871	2,854	-906	-17
Other	-536	384	384	255	-129	-129
Agency for International Development	4,024	4,613	4,613	4,322	-291	-291
Multilateral assistance	2,115	2,632	2,632	2,640	8	8

Table 3.--2004 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	2003	2004			Change, 2004 Actual from:	
		Estimate				
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Military sales programs	150	3	3	-1,239	-1,242	-1,242
International monetary programs	-1,722	0	0	-647	-647	-647
Other	259	541	541	301	-240	-240
Subtotal, International Assistance Programs	13,466	17,365	16,476	13,788	-3,577	-2,688
National Aeronautics and Space Administration	14,552	14,604	14,604	15,186	582	582
National Science Foundation	4,735	5,346	5,346	5,118	-228	-228
Office of Personnel Management:						
Civil Service Retirement and Disability Fund	50,368	52,830	52,830	52,277	-553	-553
Employees and Retired Employees Health Benefits Funds	-1,482	-1,035	-1,274	-1,721	-686	-447
Other	5,248	5,773	5,773	5,979	206	206
Subtotal, Office of Personnel Management	54,134	57,568	57,329	56,535	-1,033	-794
Small Business Administration	1,559	3,978	4,044	4,077	99	33
Social Security Administration:						
Old age and survivors insurance (off-budget)	402,776	417,293	417,939	417,078	-215	-861
Disability insurance (off-budget)	71,982	78,973	77,480	78,550	-423	1,070
Supplemental security income program	35,146	37,431	37,275	36,411	-1,020	-864
Other:						
On-budget	11,188	11,189	13,131	12,595	1,406	-536
Off-budget	-13,358	-14,391	-14,438	-14,428	-37	10
Subtotal, Social Security Administration	507,734	530,495	531,387	530,206	-289	-1,181
Other independent agencies:						
Corporation for National and Community Service	839	609	585	765	156	180
District of Columbia	781	802	802	805	3	3
Export-Import Bank	-3,248	-1,582	-1,582	-1,902	-320	-320
Federal Communications Commission:						
Universal service fund (net)	8,406	6,587	6,587	3,378	-3,209	-3,209
Spectrum auction subsidies	515	624	624	641	17	17
Other	-121	-101	-101	-125	-24	-24
Subtotal, Federal Communications Commission	8,799	7,110	7,110	3,894	-3,216	-3,216
Federal Deposit Insurance Corporation:						
Bank insurance fund	-571	-427	-850	-1,006	-579	-156
Savings association insurance fund	-288	-350	-569	-411	-61	158
FSLIC resolution fund (including RTC)	41	-31	-131	-163	-132	-32
Other FDIC	26	30	30	26	-4	-4
Subtotal, Federal Deposit Insurance Corporation	-793	-778	-1,520	-1,554	-776	-34
Federal drug control programs	620	500	500	398	-102	-102
National Credit Union Administration	-572	-613	-613	-351	262	262
Postal Service:						
On-budget	76	60	60	60	0	0
Off-budget	-5,245	-4,956	-4,781	-4,130	826	651
Subtotal, Postal Service	-5,169	-4,896	-4,721	-4,070	826	651
Railroad Retirement Board	3,056	3,781	2,851	2,792	-989	-59

Table 3.--2004 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	2003	2004			Change, 2004 Actual from:	
		Estimate				
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Securities and Exchange Commission	-532	-874	-874	-685	189	189
Tennessee Valley Authority	267	-188	-188	-413	-225	-225
Other (net)	4,902	7,524	7,524	6,168	-1,356	-1,356
Subtotal, other independent agencies	8,949	11,395	9,874	5,847	-5,548	-4,027
Undistributed offsetting receipts:						
Employer share, employee retirement (on-budget):						
Military retirement and health	-21,920	-23,150	-23,150	-22,210	940	940
Other	-17,829	-20,930	-19,509	-19,889	1,041	-380
Employer share, employee retirement (off-budget)	-9,602	-10,654	-11,331	-11,331	-677	0
Interest received by on-budget trust funds	-72,522	-67,388	-68,153	-67,757	-369	396
Interest received by off-budget trust funds	-83,544	-86,286	-86,314	-86,227	59	87
Rents and royalties on the Outer Continental Shelf lands	-5,029	-4,587	-5,778	-5,105	-518	673
Spectrum auction receipts	0	0	0	0	0	0
Outer Continental shelf receipts escrow interest and other	0	0	0	0	0	0
Subtotal, undistributed offsetting receipts	-210,446	-212,995	-214,235	-212,520	475	1,715
Total, Outlays	2,159,246	2,318,834	2,319,096	2,292,352	-26,482	-26,744
On-budget	1,796,237	1,938,855	1,940,541	1,912,841	-26,014	-27,700
Off-budget	363,010	379,979	378,555	379,512	-467	957
Deficit (-) / Surplus (+)	-377,139	-520,741	-444,683	-412,553	108,188	32,130
On-budget	-537,972	-674,766	-599,642	-567,786	106,980	31,856
Off-budget	160,833	154,025	154,959	155,233	1,208	274

NOTE: Detail may not add to totals or changes due to rounding.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 15, 2004
JS-2033

Statement from Tony Fratto regarding the Report to Congress on International Economic and Exchange Rate Policies

"The foreign exchange report has not been transmitted to Congress today. When the report is complete and has received review and clearance from the Secretary of the Treasury, it will be sent to Congress and made public.

Because of the scope and complexity of the foreign exchange report, it has often required more time to complete. In most occasions over the past 15 years of the report's existence, additional time needed for the preparation of the report has been required, with it transmitted to Congress weeks, and on some occasions, months late. In fact, the Treasury Secretary failed to transmit any reports in either 1997 or 1998 *(see attached table)*. Last year's report was transmitted two weeks late to coincide with a scheduled Senate hearing on the issue.

While we always strive to meet the legislation's deadlines, sometimes delays are unavoidable, given the complexity of the issue and necessity of monitoring ongoing developments in the currency activity of our major trading partners."

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Treasury's Report to Congress on International Economic and Exchange Rate Policies

Dates of submission -- October 1988-April 2004. *(Source: U.S. Treasury Department)*

Report Due	*Submitted*	
15-Oct-88	*24-Oct-88*	
15-Apr-89	*Apr-89*	
15-Oct-89	*Oct-89*	
15-Apr-90	*18-Apr-90*	
15-Oct-90	*3-Dec-90*	
15-Apr-91	*May-91*	
15-Oct-91	*Nov-91*	
15-Apr-92	*May-92*	
15-Oct-92	*Dec-92*	
15-Apr-93	*May-93*	
15-Oct-93	*Nov-93*	
15-Apr-94	*Jul-94*	
15-Oct-94	*3-Jan-95*	
15-Apr-95	*25-Aug-95*	
15-Oct-95	*15-Dec-95*	
15-Apr-96	*9-Aug-96*	
15-Oct-96	*21-Feb-97*	
15-Apr-97	*No Report*	
15-Oct-97	*No Report*	
15-Apr-98	*No Report*	
15-Oct-98	*22-Jan-99*	**Combines reports due 15-Apr-97, 15-Oct-97, 15 Apr-98 and 15-Oct-98*
15-Apr-99	*No Report*	
15-Oct-99	*3-Sep-99*	**Combines reports due 15-Aprl-99 and 15-Oct 99*
15-Apr-00	*9-Mar-00*	

15-Oct-00	18-Jan-01
15-Apr-01	22-Jun-01
15-Oct-01	24-Oct-01
15-Apr-02	24-Apr-02
15-Oct-02	12-Nov-02
15-Apr-03	2-May-03
15-Oct-03	30-Oct-03
15-Apr-04	15-Apr-04

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 15, 2004
JS-2034

Statement by Treasury Secretary John W. Snow
On September's Retail Sales Data
October 15, 2004

We were pleased to learn, today, that retail sales made a 1.5 percent leap in September - more than double the 0.7 percent increase anticipated by financial markets. This indicator is one more sign that our economy is growing stronger and is on the right path for future growth and job creation. The fiscal policies implemented by President Bush, coupled with the actions of the Federal Reserve, have led our country out of difficult economic times into recovery, growth and job creation. I am optimistic that our best economic days are ahead of us.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 15, 2004
JS-2035

The Latin American Economic Recovery
John B. Taylor
Under Secretary of Treasury for International Affairs
Remarks at the Group of 50
Washington, DC
October 15, 2004

Thank you very much for inviting me to be here today. I look forward to a good discussion. I always enjoy the opportunity to discuss Latin American economic issues with financial experts and business people from the region. I particularly enjoy it when the economic news is good, as it is in so much of the region today.

The Bleak Situation Several Years Ago

To put this good news in perspective, I would like to begin by noting how different the current economic situation is from the bleak situation just a few years ago. I vividly remember my very first days on the job in early 2001 at the start of the Bush Administration. I remember being briefed about the crisis in Argentina and the latest IMF $14 billion rescue package approved on January 12, 2001. I remember being visited by Mexico's economic team to get the bad news about the sinking Mexican economy. I remember getting many calls from my friends in Brazil about the knife-edge situation there. And I will never forget the fears of contagion expressed by nearly everyone.

The Remarkable Improvement

Consider how different things are now. Economic growth this year in Latin America is estimated to be about 4-1/2 percent--much higher than the measly 1/2 percent growth in 2001 and a big improvement over the 2-3/4 percent average of the past two decades. Growth rates in Brazil and Mexico are expected to come in at 4 percent and Argentina at 7 percent.

And there are now no countries in the region in a recession or a financial crisis, except for our unfortunate friends on the island of Hispaniola. They have been hit by severe shocks ranging from hurricanes to bank fraud to armed conflict. I visited the Dominican Republic and Haiti over the summer. I am pleased to see how the Fernandez government is working to formulate an economic strategy. The situation in Haiti is clearly a difficult one. We are working closely with the LaTortue government to effectively coordinate donor assistance.

And I am happy to say that there is little talk of contagion. Many have noticed how little contagion there was following the Argentina default in 2001 compared with the Asian and Russian defaults in 1997-98.

Another improvement observed across the region is the low interest rate spread. Investors and credit rating agencies have taken note of policy improvements. Brazil, Chile, Ecuador, Paraguay and Uruguay--among others--received ratings upgrades during 2003 and 2004. Despite the increase in the federal funds rate in the United States, the Latin America average spread is now only about 415 basis points over U.S. Treasuries.

Latin American countries are tapping capital markets with notable success. Mexico recently obtained its lowest-ever yield and spread on a 30-year global bond, and

Guatemala issued a 30-year bond at 400 bps over Treasuries. Several large countries, such as Mexico, Brazil, and Peru, have already met their financing needs for the entire year. Some have begun pre-financing obligations for next year.

Another improvement, which is the culmination of continuing progress for many years, is the decline in inflation. Inflation in the region in 2004 is now estimated to be about 6.5 percent. That compares with average annual inflation of 196 percent in the ten years from 1986 to 1995. That low inflation bodes well for continued expansion with fewer recessions and crises in the region in the future.

The highlights of this recovery are the rapid growth of exports and strengthened external balances. Export growth is up across the board in the region, and is projected to be 21 percent for the region as a whole this year after 10 percent growth in 2003. This not just a commodity price phenomenon: export volume growth is up and is actually accelerating. The strong performance of exports has helped reverse current account deficits, which have historically been a source of vulnerability for Latin American economies. In 2003, for the first time in 35 years, the current account as a share of GDP for the region swung into surplus.

The improved economic situation in Latin America is important not only for the people of Latin America but also for the whole hemisphere, including people of the United States. Stronger economies in Latin America create jobs in the United States by increasing demand for U.S. exports, with exports to Latin America representing about one-seventh of total U.S. exports. Stronger economies in Latin America reduce the incentives for illegal migration and reinforce popular support for market-oriented policies that create opportunity and enhance economic freedom. Stronger economies in Latin America also help strengthen democracies, which become better allies in the war on terror, the fight against international narcotics trafficking, and initiatives to combat money laundering and terrorist financing.

Of course, this greatly improved economic situation should not be a time for complacency. Oil prices are high and are a drag on economic growth in many countries. And there is still a need for structural reform to strengthen and lengthen the economic expansion in the region as a whole and thereby take a bigger bite out of poverty. Nevertheless, we should note the improvements and consider the factors that led to those improvements.

Better Economic Policies throughout the Hemisphere

In my view, better economic policies explain much of the improvements that we have seen in the region. First, the economic recovery in the United States is a huge factor in the Latin American recovery. Every finance minister and central bank governor from the region we meet tells us that. And the U.S. economic recovery was based on timely changes in monetary and fiscal policy including President Bush's tax cuts in 2001, which resulted in one of the shortest recessions in U.S. history, and his tax cuts of 2003, which solidified the recovery.

There are also better economic policies pursued by Latin American governments.

Last year, six of Latin America's seven largest economies improved their fiscal policies by increasing their primary surpluses to bring down debt levels. Primary fiscal balances have continued to strengthen this year, helping to further reduce debt levels.

We have also seen a movement toward better monetary policies based on price stability goals and clear systematic procedures for adjusting the instruments of monetary policy to achieve these goals, frequently helped by flexible exchange rates. Brazil, Chile, Colombia and Peru all have well-established monetary policies based on inflation-targeting frameworks. Mexico, Chile, Peru and Colombia have independent central banks. Finance Minister Palocci of Brazil has declared his intention of taking up the issue of central bank independence in 2005.

The results of more effective monetary policies were clearly displayed in the wake of financial crises in Brazil and Argentina. Both countries experienced large currency depreciations in 2002. All too often in the past, such depreciations produced out-of-control inflation. However, prudent monetary management prevented these depreciations from turning into inflationary spirals. The pattern that we saw in both countries is strikingly similar: a bulge in inflation as the effects of

the depreciation worked their way into consumer prices, followed by a sharp and sustained reduction in inflation resulting from prudent and effective monetary restraint.

Perhaps the clearest single example of how sound economic policies and management have paid dividends in the form of robust economic growth is Brazil under the Lula administration. When President Lula took office, he reiterated his commitment to sound fiscal and monetary policies. Given Brazil's high debt levels, the Lula administration established an ambitious fiscal surplus target for 2003 with the objective of lowering the debt over time--then went on to beat the target. In light of the strong fiscal performance, the Lula administration recently announced that it will build on this progress by increasing the target for 2004.

These fiscal and monetary policies have helped underpin an increase in economic growth in Brazil. Real GDP has grown at rates of more than 6 percent for the last three consecutive quarters. Real interest rates have fallen to roughly 10 percent today, after being as high as 19 percent in the summer of 2003. The *real* and inflation are relatively stable and external borrowing spreads are below 500 basis points. Brazilian authorities are focused on consolidating these gains by locking-in improvements in fiscal policy through steps like pension reform. They are also focused on advancing microeconomic reforms critical for sustaining growth such as streamlining the process of starting a business and working to expand credit to small businesses. And they are working to find ways to invest in high-return infrastructure projects within responsible fiscal constraints.

There are many examples of improved policies in the region. In Mexico, the government has been successful at achieving fiscal deficit targets. In Colombia, President Uribe is pursuing policies to reduce inflexible government spending and streamline the pension system. In Peru, the government has increased its efforts to improve its tax administration and fight tax evasion. In Uruguay, the primary surplus has nearly tripled in the first half of this year compared to last year.

Support from the United States

The Bush Administration's basic economic strategy for the region is to provide strong support to countries that are pursuing sound economic policies. From my own perspective and that of the U.S. Treasury, I can say that under President Bush's leadership we have maintained a sustained and intense focus on the region, even if that does not always get newspaper headlines. Our strategy is based on our firm belief that without sound policies on the part of the country itself, international assistance cannot yield successful results. With this philosophy in mind, we have worked aggressively along multiple fronts to prevent and contain financial crises and to bolster economic growth in the region.

An early focus of the Bush Administration was to deal with financial contagion--the spread of crises from one country to another--and define clearly when a response from the international policy community is appropriate and desirable. We emphasized early on that contagion was not automatic, and that policy responses had to take this into account. This is important because reacting to false alarms about contagion can lead to support of countries that are not following strong and sustainable policies.

At the same time, it is important to recognize instances where countries are pursuing strong policies but are hit by external shocks beyond their control that damage their economies. This was the case in Uruguay in the aftermath of the Argentine crisis. The Uruguayan government had a record of market-oriented economic policies when the crisis in Argentina caused a bank run in the Uruguayan banking system. The Uruguayan authorities launched strong policy steps, including floating the currency and a complete restructuring of the banking system. The United States responded swiftly, providing a short-term $1.5 billion loan to bolster Uruguay's reserves until further support from the IMF, World Bank, and Inter-American Development Bank could be mobilized to assist. This timely financial support ended the bank run, and allowed the Uruguayan government to keep its economic policies on track. The result has been a period of strong economic growth in Uruguay.

Another example was the IMF program for Brazil during the election in 2002, based on the strong commitment of the Brazilian government to economic policies aimed at strengthening Brazil's public finances and restoring economic stability. Thanks to

these policies. Brazil was able to overcome pre-election financial market uncertainty that had caused the Brazilian *real* to drop precipitously and pushed risk spreads on Brazilian bonds to almost 2,400 basis points over U.S. Treasuries. It allowed incoming President Lula to take office and have the space to implement a disciplined economic policy program that has restored market confidence and boosted economic growth.

Helping to prevent and contain financial crises is not the only way the United States has supported economic growth in Latin America. It is equally important to pursue deep economic reforms that are aimed at addressing the impediments to the development of a vibrant private sector. Bilateral policy dialogues focused on these very issues are a vital component of our engagement in the region.

One example is the U.S.-Brazil Group for Growth, established at the first summit meeting between Presidents Bush and Lula in June 2003. The Group's main purpose is to advance policies that raise economic growth and create jobs in both countries by focusing on areas such as increasing credit to small businesses, streamlining business registration to encourage entrepreneurs, and improving public investment. The Group for Growth has already yielded concrete results: our Brazilian counterparts tell us that the Group's discussion of small businesses helped shape recent legislation submitted to the Brazilian Congress that reduces taxation and streamlines labor and pension regulations for Brazilian small businesses.

The U.S.-Mexico Partnership for Prosperity is another important bilateral forum, the goal of which is to promote economic development on both sides of the border with a particular focus on the most impoverished parts of Mexico. Launched in 2001, the Partnership activities encompass several agencies of both governments.

At Treasury, our major area of focus in the Partnership has been on lowering the costs of remittances from workers in the United States to their families in Mexico. Our hard work to foster competition in the remittances industry and increase access to the formal financial system under the Partnership has borne fruit: the cost of remittance transfers from the United States to Mexico has been halved since 1999, and a range of new financial products have been introduced. This means more options and more money in the pockets of families.

The Bush Administration's development assistance policy also emphasizes support for countries that pursue responsible policies. This administration has sought to reorient U.S. development assistance by creating the Millennium Challenge Corporation (MCC) and its Millennium Challenge Account (MCA). The MCC channels aid funds to countries that invest in people, pursue good governance and the rule of law, and promote economic freedom. The U.S. Congress has appropriated $1 billion to the MCA in fiscal year 2004 and the Bush Administration is requesting $2.5 billion in 2005, ramping up to $5 billion by 2006. Three countries from Latin America--Bolivia, Nicaragua and Honduras--have been selected by the MCC Board of Directors to submit proposals. After the countries have developed their own proposals, the MCC will evaluate and select the highest quality proposals that also have a strong likelihood of success and measurable results.

We have also used multilateral fora to promote sound economic policies that encourage growth. At the Special Summit of the Americas meeting held in Monterrey this January, President Bush secured agreement among the Hemisphere's leaders to take steps necessary to cut the time needed to start a business and to triple bank credit to small business by 2007 with the help of the Inter-American Development Bank.

At the Summit, we also sought to expand to the rest of the region the success that has been achieved with Mexico in reducing the cost of remittance transfers. Leaders agreed to work together to halve the average cost of remittance transfers in the region by 2008. I cannot emphasize enough how significant this commitment is. Annual remittance flows are roughly five times annual official development assistance and are a considerable share of the economy for many countries. Remittance flows are becoming increasingly important as a source of funds that support economic development, new businesses, alleviate poverty and provide opportunities for children to stay in school and thus build human capital in the region.

Under President Bush's leadership the United States has also been committed to

expanding free trade in Latin America. This entails, first of all, strengthening the global trading system and a successful outcome to the WTO Doha negotiations. We are very pleased with the progress at the Geneva meetings this summer and optimistic that we are again on the right track in these negotiations. At the same time, the Bush Administration has pursued an aggressive trade agenda through bilateral and regional free trade agreements within Latin America. In addition to pursuing the 34-country FTAA, we have concluded FTAs with Chile and with five Central American countries and the Dominican Republic. Panama talks are progressing nicely, and we anticipate that our dialogue with Andean countries will deepen and accelerate now that both sides have tabled proposals in most areas.

Conclusion

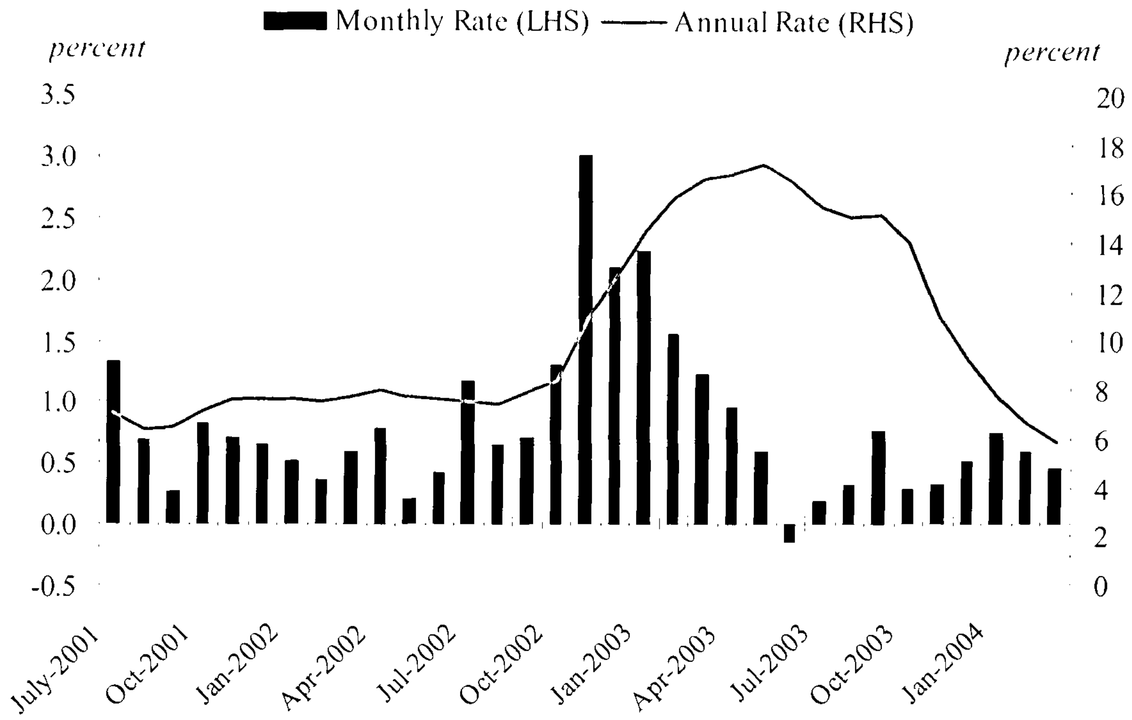
As we take stock of the amazing progress to date, we should emphasize the work that remains. Priorities are to: (1) continue sound macroeconomic policies to keep inflation and debt levels down and keep the expansion going, and (2) focus more on microeconomic reforms to raise growth performance and poverty reduction over the long run. Governments need to strengthen the rule of law, streamline regulation, combat corruption, and develop infrastructure.

President Bush has demonstrated his commitment to the region over the past four years by supporting countries that follow sound economic policies and open their economies to the world. I am confident that the United States will continue to play a constructive role in helping the region to sustain growth and raise living standards in the years ahead.

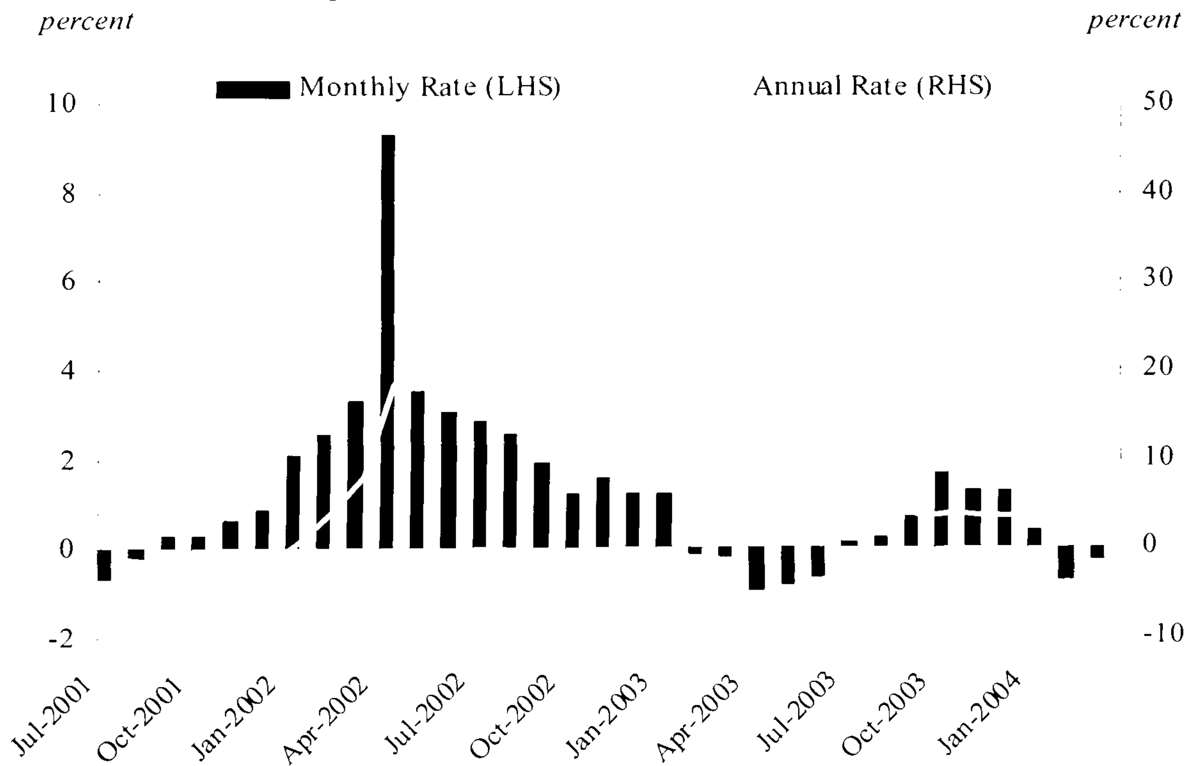
REPORTS

- G50 graphs
- Contagion Slides

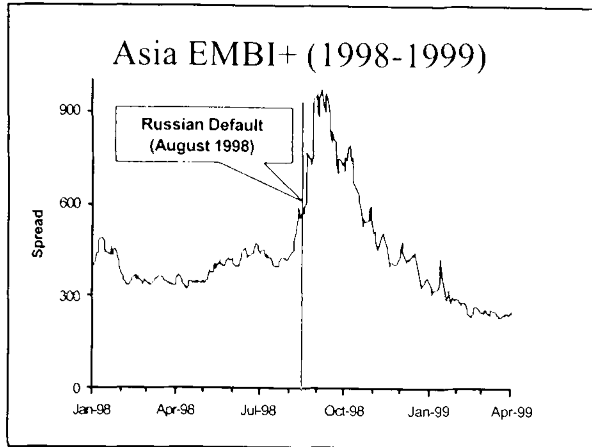
Brazil: Consumer Price Inflation

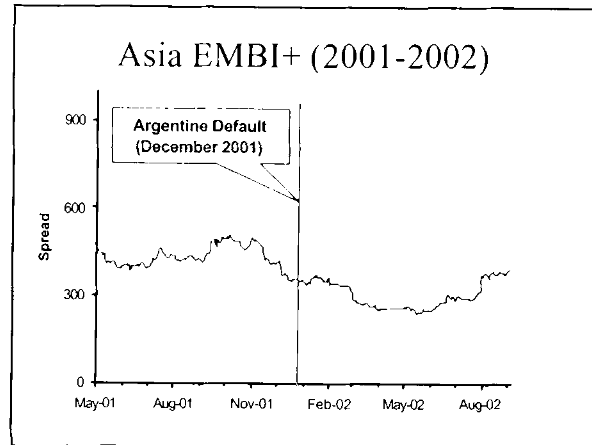


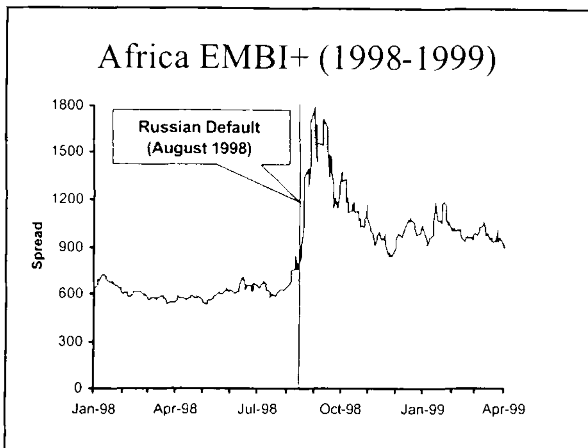
Argentina: Consumer Price Inflation

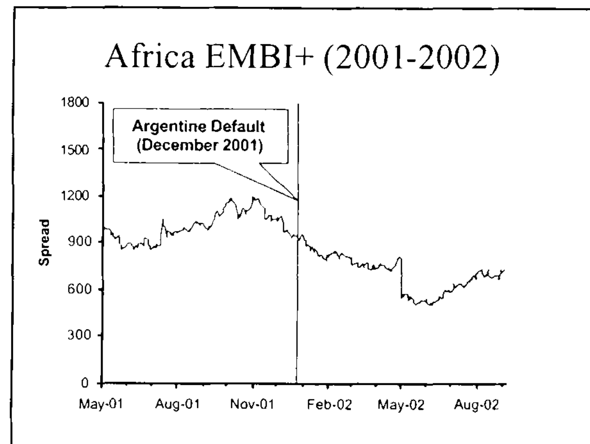


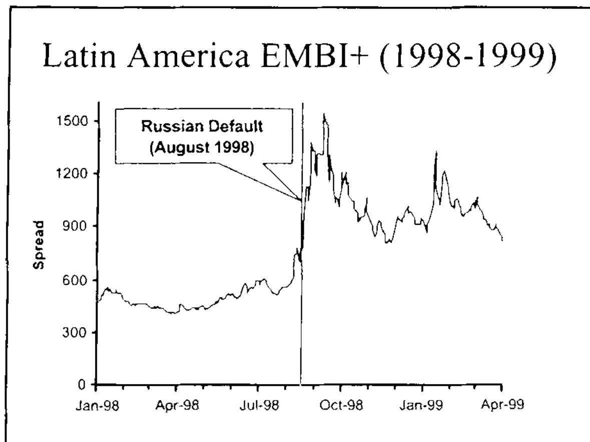
Sovereign Risk Spreads After the Russian and Argentine Defaults

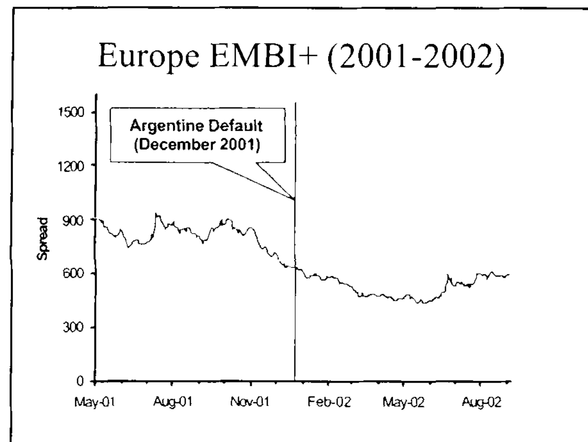












PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 15, 2004
JS-2036

Secretary Snow to Visit Lancaster, Pennsylvania on Tuesday to Discuss U.S. Economy

Treasury Secretary John W. Snow will visit the Lancaster , Pennsylvania area on Tuesday, October 19 to meet with local business leaders and students to discuss the President's efforts to strengthen the economy and create jobs.

"As a result of the President's economic leadership, we have overcome a recession and seen 13 straight months of job creation, totaling more than 1.9 million new U.S. jobs since August 2003," said Secretary Snow. " Pennsylvania has gained new jobs this year, and the President's tax reform policies have ensured that more than 4.6 million Pennsylvania taxpayers will have lower income tax bills in 2004."

During this trip to Pennsylvania , Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

Recent indicators show that President Bush's economic policies continue to move the economy forward. According to the Labor Department, the national unemployment rate was 5.4% in September – down 0.9 percentage point from a peak of 6.3% in June 2003 and the lowest rate since October 2001. At 5.4%, the unemployment rate is below the average of the 1970s, 1980s, and 1990s. Employment over the last year was up in 47 of the 50 states and the unemployment rate was down in all regions and in 45 of the 50 states.

The following events are open to the media, which must present media credentials or photo ID:

Tuesday, October 19

Roundtable with Local Business Leaders, with U.S. Congressman Joe Pitts
10:00 a.m. EDT
Lancaster General Health Campus
2100 Harrisburg Pike
Lancaster , PA
** Media should arrive by 9:30 a.m.

Tour of Sechan Electronics, Inc. and Roundtable Discussion
2:00 p.m. EDT
Sechan Electronics, Inc.
525 Furnace Hills Pike
Lititz , PA
** Media should arrive by 1:30 pm
** There will be a brief media availability immediately following the event

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 18, 2004
js-2037

Treasury International Capital (TIC) Data For August

We recommend printing this release using the PDF file below.

Treasury International Capital (TIC) data for August are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). The next release date, which will report on data for September, is scheduled for November 16, 2004.

Long-Term Domestic Securities

Gross purchases of domestic securities by foreigners were $1,359.4 billion in August, exceeding gross sales of domestic securities by foreigners of $1,299.1 billion during the same month.

Foreign purchases of domestic securities reached $60.2 billion on a net basis in August, relative to $79.2 billion during the previous month. Private net flows reached $37.4 billion in August. Net private purchases of Treasury Bonds and Notes fell to minus $4.4 billion from $18.3 billion the preceding month. Net private purchases of Government Agency Bonds were $18.6 billion, up from $17.7 billion the previous month. Net private purchases of Corporate Bonds were $25.4 billion, slightly lower than $27.1 billion the previous month. Net private purchases of Equities declined to minus $2.1 billion from $9.7 billion.

Official net purchases of U.S. securities were $22.8 billion in August, relative to $6.4 billion in July. Official net purchases of Treasury Bonds and Notes of $19.1 billion accounted for the bulk of official inflows in August, up from $4.1 billion the previous month.

Long-Term Foreign Securities

Gross purchases of foreign securities owned by U.S. residents were $255.7 billion in August, relative to gross sales of foreign securities to U.S. residents of $256.9 billion during the same month.

Gross sales of foreign securities to U.S. residents exceeded purchases by $1.3 billion, highlighting net U.S. sales of $1.3 billion in Foreign Equities and net acquisitions of $2.6 billion in Foreign Bonds.

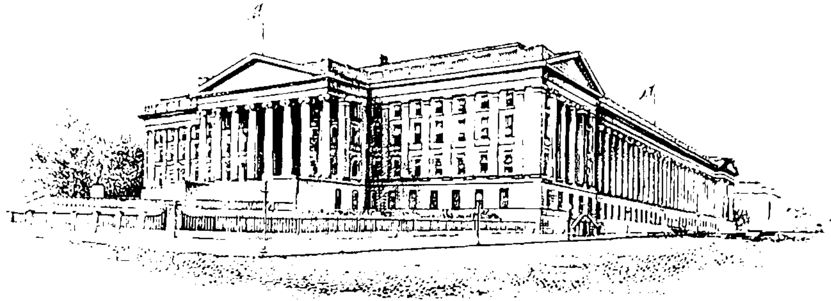
Net Long-Term Securities Flows

Net foreign purchases of both domestic and foreign long-term securities from U.S. residents were $59.0 billion in August compared with $63.1 billion in July. Net foreign purchases of long-term securities were $775.5 billion in the 12-months through August 2004 as compared to $700.0 billion during the twelve months through August 2003.

The full August data set, including adjustments for repayments of principal on asset-backed securities, as well as historical series, can be found on the TIC web site www.treas.gov/financialeducation.

REPORTS

- Treasury International Capital Data For August



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

October 18, 2004
EMBARGOED UNTIL 9:00 AM

Contact Tony Fratto at 202-622-2910.

TREASURY INTERNATIONAL CAPITAL DATA FOR AUGUST

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Foreigners' Transactions in Long-Term Securities with U.S. Residents
(Billions of dollars, not seasonally adjusted)

				12 Months Through					
		2002	2003	Aug-03	Aug-04	May-04	Jun-04	Jul-04	Aug-04
1	Gross Purchases of Domestic Securities	13,022.9	14,922.1	14,361.4	16,223.7	1,436.9	1,338.7	1,309.2	1,359.4
2	Gross Sales of Domestic Securities	12,475.4	14,175.0	13,641.9	15,368.8	1,380.4	1,253.5	1,230.0	1,299.1
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**547.6**	**747.1**	**719.5**	**854.9**	**56.5**	**85.2**	**79.2**	**60.2**
4	**Private, net /2**	**508.3**	**607.7**	**627.0**	**604.5**	**42.6**	**66.9**	**72.9**	**37.4**
5	Treasury Bonds & Notes, net	112.8	168.8	188.6	156.6	9.0	23.0	18.3	-4.4
6	Gov't Agency Bonds, net	166.6	136.1	183.4	166.8	22.1	15.2	17.7	18.6
7	Corporate Bonds, net	176.7	264.7	225.1	264.1	19.3	26.5	27.1	25.4
8	Equities, net	52.2	38.1	30.0	17.0	-7.8	2.2	9.7	-2.1
9	**Official, net**	**39.3**	**139.4**	**92.5**	**250.4**	**13.9**	**18.3**	**6.4**	**22.8**
10	Treasury Bonds & Notes, net	7.1	109.3	66.5	211.9	14.4	17.5	4.1	19.1
11	Gov't Agency Bonds, net	28.6	24.9	21.7	31.0	-1.2	0.6	1.4	2.6
12	Corporate Bonds, net	5.6	5.5	4.2	8.3	0.5	0.7	0.8	1.1
13	Equities, net	-2.0	-0.4	0.0	-0.7	0.2	-0.5	0.1	0.1
14	Gross Purchases of Foreign Securities	2,640.0	3,037.8	2,799.1	3,564.5	294.4	291.7	287.0	255.7
15	Gross Sales of Foreign Securities	2,613.0	3,086.4	2,818.6	3,643.9	285.9	303.9	303.1	256.9
16	**Foreign Securities Purchased, net** (line 14 less line 15) /3	**27.0**	**-48.7**	**-19.4**	**-79.5**	**8.5**	**-12.2**	**-16.2**	**-1.3**
17	Foreign Bonds Purchased, net	28.5	22.3	37.9	-6.2	15.3	-7.0	-7.3	-2.6
18	Foreign Equities Purchased, net	-1.5	-71.0	-57.3	-73.3	-6.8	-5.2	-8.9	1.3
19	**Net Long-Term Flows** (line 3 plus line 16)	**574.6**	**698.4**	**700.0**	**775.5**	**65.0**	**73.0**	**63.1**	**59.0**

/1 Net foreign purchases of U.S. securities (+)
/2 Includes International and Regional Organizations
/3 Net U.S. acquisitions of foreign securities (-)

Source: U.S. Department of the Treasury

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 18, 2004
js-2038

U.S. Treasury Department General Counsel Arnold I. Havens
Remarks to the Nevada Development Authority President's Council Luncheon
Las Vegas, Nevada
October 18, 2004

Thank you so much for inviting me; it's great to be here in Nevada.

I appreciate the opportunity to talk with you today about the most profound threat to our Nation's economy: terror.

We learned, painfully, of the financial impact of a major terrorist attack three years ago this fall. In addition to the horrific loss of life in New York and Pennsylvania and at the Pentagon that day, our economy suffered a loss of about a million jobs in its aftermath.

As you well know, 9/11 hit Nevada particularly hard due to heavy reliance on tourism and travel. However, thanks to the resiliency and entrepreneurial spirit of the people in this room and your fellow Nevadans, you rebounded quickly and your economy is doing very well today.

Employment in the leisure and hospitality sector has recently returned to its pre-attack level and gaming revenues. Visitor volume and hotel occupancy rates began to strengthen notably in mid 2003 and were quite strong through this spring.

And I'm pleased to see that, today, Nevada's unemployment rate is below the national average and falling. You added 2,800 new jobs to your state economy in August and have added 31,100 new jobs so far this year.

I want to congratulate you on this impressive recovery. I hope you found the President's tax cuts provided you with the stimulus you needed at that critical time.

We also worked hard, in those days and months following 9/11, to stabilize insurance markets with the Terrorism Risk Insurance Act--you know it as TRIA. Its purpose was to bring stability to insurance markets and the broader economy so that terrorism risk insurance could be offered after the shock of 9/11.

The President's economic policies, combined with the resiliency and perseverance of American employers and workers, brought us out of those difficult days following the terrorist attacks. Since then we have also been committed to using every available tool in waging a comprehensive campaign against terrorism, and preventing further attacks

At the Treasury Department we, along with those of you in the financial community, are fighting on a critical front of the war on terror, and that is the financial war.We have accomplished a lot in the last three years: In close coordination with the financial community, we are tracking and freezing the assets of terrorists and their supporters. This is a fundamentally important front in the war because a terrorist act, no matter how simple, is usually supported by a sophisticated financial and operational network. Terrorist organizations need to pay for recruitment, indoctrination, training, materials, housing, transportation... the list is long, and it requires quite a bit of money. Cutting off their money is therefore essential.

As Secretary Snow often says: "hatred fuels the terrorist agenda, but money makes it possible."

Since September 11, 2001, the United States has designated close to 400 individuals or entities as terrorists or supporters of terrorists. Worldwide, we and our allies have frozen over $142 million in terrorist-related assets. This has made it harder, costlier, and riskier for al Qaida and like-minded terrorist groups to raise and move money around the world.

Our efforts to stop money laundering also are critical, and they are making a difference. The USA PATRIOT Act, among other provisions, expands the anti-money laundering system to make sure there are no gaps for terrorists, or their financiers, to exploit.

Many businesses represented here today, including casinos, are required to develop anti-money-laundering programs and to file Suspicious Activity Reports with the Treasury Department.

All financial institutions, including many of you in today's audience, have done everything that the Treasury Department has asked of you during this fight, and I want to personally thank you for your efforts. Our country is safer because of the high levels of cooperation between the public and private financial sectors.

In spite of our best efforts to stop the terrorists before they can strike, we must also be prepared for potential attacks. As part of a broader, Administration-wide effort to protect our critical infrastructure, the Treasury Department is the lead agency for protecting the financial infrastructure and keeping financial institutions operational in the face of any effort to disrupt them.

The success of our protective efforts requires close cooperation between the government and the private sector. We saw this cooperative effort put into action in late summer, when we were made aware of a terrorist threat to certain buildings that house financial institutions in the New York metropolitan area and in Washington, some of the symbols of our nation's financial strength.

The response of the financial community was inspiring. More employees came to work at the New York Stock Exchange that Monday in August than any other Monday in August in the history of the Exchange.

Throughout the financial sector, customers were able to continue business as usual. And while there was justifiable concern, there was no crisis.

Our progress in the financial war on terror since 9/11 is in no small measure due to the cooperative spirit and effort of the businesses large and small in Nevada and across the country.

We are mindful of the added burden resulting from the additional regulations in this area and we continue to want to work with you to make them as effective and efficient as possible.

As I noted earlier, I believe that terrorism is the most profound threat to our economy. But of course it is not the only significant challenge our economy has faced over the last few years.

The events of 9/11 were preceded by the bursting of the stock market bubble and by a recession that began in 2000. Nine-eleven was followed by the corporate scandals that understandably shook confidence in our market-based economy.

Because of the President's pro-growth policies and strong economic leadership--and because of the resiliency and entrepreneurial spirit of our fellow citizens--we have not only made significant progress in the war on terror, but we've turned the corner on the economy.

We've seen a steady increase in jobs for thirteen consecutive months, through September.
Since August of last year, America has added more than 1.9 million workers to the payroll, including 96,000 in September. The national unemployment rate is 5.4 percent, lower than the average of each of the past three decades.

But clearly there is more work to be done to make sure our economy remains strong.

For example, the President believes that we need to reduce our dependence on foreign energy sources. The current price per barrel of oil simply underscores the need to pass the President's comprehensive energy plan.

The President also is committed to ending the frivolous lawsuits that threaten every business, particularly small business. Baseless suits increase the cost of all goods and services, and drive up the costs of health care.

This is why the President continues to urge Congress to pass several important liability proposals before this session adjourns.

Victims should, of course, be compensated fairly when they are injured due to the fault of another person. But important contributors to our economy--including hospitals and businesses, large and small--are put at risk by frivolous suits.

The current tort system costs America well over $200 billion each year. That's a tort tax – paid in the form of lower wages, higher product prices, and reduced investments – of $809 for every individual and more than $3200 for a family of four.

Let me focus on healthcare for a moment, to underscore how disruptive and costly frivolous lawsuits are.

As of 2002, 58 percent of physicians reported that they had been the target of a lawsuit, and their malpractice insurance costs typically rose between 30 and 75 percent over three years, from 2000 to 2002. Many doctors are forced to retire early or cut back their practices.

You've seen the effects right here in Nevada. A major trauma center here in Las Vegas was forced to close briefly in 2002 because it was not able to obtain insurance coverage.

Of course, medical liability reform is critical to helping provide quality, reasonably priced health care. But the Administration also has advanced two other important initiatives--Association Health Plans (AHPs) and Health Savings Accounts (HSAs)--to make health insurance more affordable and give individuals more direct involvement in their health care decisions.

AHPs would allow small businesses to band together, across state lines, to form health-insurance purchasing groups. The Congressional Budget Office estimates that small businesses could save 13-25 percent on premiums with AHPs. These savings will allow more people to be insured.

HSAs are already bringing a revolutionary option to Americans when it comes to purchasing health coverage. They were created as part of the President's Medicare reform legislation. An HSA is like an IRA: you own it, you control it, and you can leave it to your heirs.

Companies that offer HSAs are reporting to the Treasury Department that among those who sign up for the program, 25-40% of the enrollees were previously uninsured.

I'd like to close with the words of Secretary Snow, who recently remarked, "We know from long experience that our economy responds best to the very thing that created it: freedom. Freedom from excessive taxation. Freedom from abusive, frivolous lawsuits. And of course freedom from terrorist assaults."

This Administration has worked hard to help expand those freedoms in America today, and I feel privileged to be playing a role in those efforts through my position at the Treasury Department.

Thank you so much for having me here today.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 19, 2004
js-2039

Secretary Snow's Remarks to Lancaster, PA Health Alliance

Thank you so much for having me here today; it's great to be in Lancaster. I'm delighted to be visiting this outstanding medical facility. It is a reminder of the fact that American health care, with its outstanding level of innovation and technology, is the envy of the world. While we have a long way to go in terms of controlling costs and increasing access, we must not lose the things that are working so well, the things that are saving and improving lives.

It's good to be here with Congressman Joe Pitts, who is doing a terrific job representing the people of this district in Congress. He's been a partner in passing tax relief and I appreciate his work and I know the President does too.

I'm looking forward to our discussion. It's important to talk about health care - it's one of the most pressing issues our country faces today. It's a complex issue, and some of the best answers and ideas come out of forums like this one.

Secretary Thompson and I recently hosted a discussion on healthcare issues at another leading medical center where we stressed the critical role that choice and the underlying doctor/patient relationship must play in our healthcare system.

We both learned a lot as well. For public officials like Secretary Thompson and myself there is no substitute for getting out of Washington and hearing directly from healthcare providers and recipients.

I'd like to set the stage for our discussion of healthcare, which has such significant economic implications, with an overview of how our economy is doing.

I'm pleased to report that we're doing quite well. Here are a few of the key signs: GDP growth is the strongest in 20 years, 1.9 million new jobs have been created over the past 13 months, and homeownership is at an all-time high. Since August 2003, employment has increased in 47 states and unemployment rates have decreased in 45 states. We're on the right path.

Several of you here today are on the front lines of economic recovery and growth. You are small-business owners, the backbone of our economy. And the President's goal is to make sure that the work you do, on the front-lines of job creation and economic growth, isn't over-burdened by unfair levels of taxation and regulation. We know that, as small-business owners and operators, you simply ask for two things from your government: fairness and freedom.

You seek the freedom to start up a new business venture, to run it and grow it, or to close the door and go fishing if that's what you want to do. And you want to be treated fairly and you deserve nothing less.

In exchange for fairness and freedom, your unspoken promise to your country and our economy is jobs and the fuel our economic engine runs on. This is why we've got to keep tax rates low on business owners like you, and on every American who pays taxes.

Here in Pennsylvania, you have gained 57,600 jobs so far this year - 6,400 in August alone - and that's great news for Pennsylvania families. I'm optimistic that the economy in Pennsylvania will continue to improve, especially if we make the President's tax cuts permanent.

More than 4.6 million taxpayers in Pennsylvania will have lower income tax bills in 2004 under the President's tax relief, and my hope is that Pennsylvanians will be able to plan on lower taxes for years to come. More than 910,000 business taxpayers in Pennsylvania will be able to use their 2004 tax savings to invest in new equipment, hire additional workers and increase pay. My hope is that those business owners will be able to plan on low taxes for years to come as well.

Our economy has come a long way. When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence. All of that took a toll on jobs, but now we are coming back strong.

We are fortunate that our economy is the most open, flexible, adaptive and resilient in the world. Our powerful core elements - small-business owners and entrepreneurs, an outstanding workforce, and the simple fact that we operate as a free market - have enabled us to recover from those very difficult economic times.

Sound monetary policy from the Federal Reserve Board helped our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation. The tax relief allowed individuals and small businesses to keep more of their own money and spend or invest it how they saw fit. This method of economic stimulus is tried-and-true; it worked this time and it worked extremely well. And thanks to the President's leadership the American economy is now on the right path.

That said, we have many challenges ahead. We know we can do better and we will not rest while there are still Americans seeking work. Our economy is so resilient, yet we have to keep constant watch on what might be weighing it down.

Rising health-care costs are acting as an economic head-wind, and that's one of the reasons I'm so glad we're talking about it here today.

When it comes to politics and government, people often refer to health care as a "social issue." And there is no doubt that few things mean more to a family, on a very personal level. But it is also an economic issue of staggering proportions. I'm concerned with what the cost of health care means to a family's budget... and what it means to the federal government's budget.

One thing is for sure: both family budgets and government budgets are bending under the weight of increasing costs for health care and health insurance.

The real issue here is how to slow the growth if health-care costs. A good place to start is ending baseless, frivolous malpractice lawsuits that are driving doctors and health-care providers out of the profession.

As of 2002, 58 percent of physicians reported that they had been the target of a lawsuit, and their malpractice insurance typically rose between 30 and 75 percent over three years, from 2000 to 2002.

Many doctors I know have thrown in the towel. Retired early. Taken their life-saving abilities out of the medical system, because the risks of staying in are just too high, and because they've had enough.

Does anyone really believe that 58 percent of doctors are negligent? Of course not. Some members of any profession are going to turn out to be bad apples... but when 58 percent of them are being sued... well, that explains why the term "ambulance chaser" is part of our national vocabulary.

For some families and individuals, the terrible result of high, rapidly increasing costs has been: going without health insurance coverage. Forty-five million people are uninsured, and that is of great concern to President Bush.

A closer look at that number reveals that more than half of those without coverage are working for small businesses. I'm sure this comes as a surprise to no one in this room today. And any public official who has ever talked to a small-business owner has likely heard the same urgent plea: "please do something about my health insurance." This is what I hear, time and time again, as I travel the country and meet business owners.

Small business is caught in a very, very tough spot when it comes to purchasing health care coverage. I'm not sure any other issue feels less fair to the operator of a small firm than the inability to pool purchasing power with other small businesses to get a better deal on healthcare purchases just like unions and bigger businesses do.

In much the same way that it is more affordable per item to buy groceries "in bulk," it is more affordable, per employee, to purchase insurance for hundreds or thousands of employees. Purchasing it for four or five employees is the economic equivalent of buying water one bottle at a time instead of installing a cooler holding multiple gallons in your home or office.

Add to that the insurance reality of "risk pools." The more people in the group, the larger the risk pool... and the more affordable the insurance is, per person.

The President appreciates how important this issue is to those of you who own small firms. He knows that employees of a small or medium-sized business are like extended family to you. Many of them are actual family members. So when health insurance rates are rising steeply and becoming harder and harder to afford, a good business owner has many sleepless nights.

Small business needs help here... and they have for some time. We hear you. That's why the President has made the creation of a variety of more affordable insurance options a priority.

The creation of Association Health Plans (AHPs) would go a long way in addressing these cost issues for small businesses and their employees. The President has fought for legislation that would allow for their creation since the day he took office. Congress needs to pass this important part of the President's agenda. It has passed the House twice and now it is time for the Senate to act.

AHPs would allow small firms like the ones represented in this room today to band together, across state lines, to form health-insurance purchasing groups. This would bring the benefit of economies of scale, dramatically broaden risk pools, and therefore lower the cost of health insurance for this group of people who struggle so much with the ever-rising cost of premiums. The Congressional Budget Office estimates that small businesses could save 13-25 percent on premiums with AHPs.

AHPs speak to that issue of fairness... it's only fair that the owners and employees of small firms have the same purchasing power as larger companies and unions.

This Administration will continue to fight for AHPs on Capitol Hill. In the mean time, we have enacted another reform that is helping small businesses and individuals today.

The creation of Health Savings Accounts (HSAs) is bringing a revolutionary option to Americans when it comes to purchasing health coverage. HSAs were created as part of the Presidents Medicare reform legislation. They are like super-charged IRAs that put patients back in charge of their health care. You own it, you control it, and you can leave it to your heirs.

One of the top benefits of HSAs is the fact that both employers and employees can save money by using them. And that's good news for the future of health coverage in this country. We need it to be more affordable so we can get more people covered.

I was delighted to learn that companies who offer HSAs are reporting to the Treasury Department that among those who sign up for the program, 25-40% of the enrollees were previously uninsured.

HSAs are a great start, a terrific new option for the small business community... but more must be done to address the rising cost of health care in this country. Health insurance premiums are acting as a drag on the small employers that mean so much to our economy.

Health care is an economic priority, and small business is an economic priority. He understands that creating an environment in which America's innovators can flourish is the essential ingredient in any recipe for economic growth.

We have plenty of work to do - in Pennsylvania and across America. But if we continue on the path of freedom and making sure individuals and entrepreneurs have an environment in which they can work and grow and afford health care for themselves and their employees, our best economic days will remain ahead of us and I am optimistic about our future.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 19, 2004
js-2040

MEDIA ADVISORY: Secretary Snow to Visit Florida This Week to Discuss U.S. Economy

Treasury Secretary John W. Snow will visit Tampa, Florida on Wednesday, October 20 and Orlando, Florida on Thursday, October 21 to meet with local business leaders to discuss the President's efforts to strengthen the economy and create jobs.

"As a result of the President's economic leadership, we have overcome a recession and seen 13 straight months of job creation, totaling more than 1.9 million new U.S. jobs since August 2003," said Secretary Snow. "Florida has gained nearly 100,000 new jobs this year, and the President's tax reform policies have ensured that more than 6.1 million Florida taxpayers will have lower income tax bills in 2004."

During this trip to Florida, Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

Recent indicators show that President Bush's economic policies continue to move the economy forward. According to the Labor Department, the national unemployment rate was 5.4% in September – down 0.9 percentage point from a peak of 6.3% in June 2003 and the lowest rate since October 2001. At 5.4%, the unemployment rate is below the average of the 1970s, 1980s, and 1990s. Employment over the last year was up in 47 of the 50 states and the unemployment rate was down in all regions and in 45 of the 50 states.

The following events are open to the media, which must present media credentials or photo ID:

Wednesday, October 20
Visit to ProStart program classroom at Wharton High School
11:30 a.m. EDT
Wharton High School
12050 Bruce B. Downs Blvd.
Tampa, FL
** **Media should arrive by 11:00 a.m.**
** **The National Restaurant Association Educational Foundation's ProStart program is designed to encourage high school students to consider careers in the restaurant and foodservice industry.**
** **There will be a brief media availability immediately following the event**

Thursday, October 21

Financial Forum with Local Business Owners and
Representatives of Local Universities and Financial Institutions
1:30 p.m. EDT
Banco Popular
8523 Commodity Circle, Suite 100
Orlando, FL
** **Media should arrive by 1:00 p.m.**
** **There will be a brief media availability immediately following the event**

Speech to the Florida Bankers Association
6:30 p.m. EDT
JW Marriott Hotel Grand Lakes
Mediterranean Ballroom, Salon Room 4
4040 Central Florida Parkway
Orlando, FL
** **Media should arrive by 6:00 p.m.**

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 19, 2004
js-2041

Statement by Secretary Snow on Charitable Giving During Ramadan

Treasury Secretary John W. Snow made the following remarks regarding the sanctity of charitable giving during Ramadan:

"Assalamualaikum and Ramadan greetings to our Muslim American brethren in the United States and Muslim friends around the world.

"Ramadan, a month of giving and benevolence, is a very special time for Muslims, marked by worship, contemplation, prayers and fasting. American Muslims practicing the Five Pillars of the Islamic faith, Shahada (affirmation), Salat (prayer), Zakat (almsgiving), Sawm (Fasting) and Hajj (pilgrimage), enrich our lives by strengthening the bonds of family, community and country.

"Indeed, charity is a fundamental element of American and Islamic culture. Americans give billions of dollars each year to help their neighbors in the United States and around the world. Through Zakat, Muslims have helped countless people around the globe with their charity and kindness.

"Sadly, some have preyed on the charitable spirit of Americans and our friends worldwide by using charities as a conduit to finance terrorist activity. Those who have corrupted the goodwill of donors do not represent the mainstream values of people of good faith, including Muslims. As President Bush has said, the face of terror is not the true faith of Islam, which is a religion of peace.

"The Treasury Department is working to stop the flow of terrorist funds that infiltrate the charitable sector by identifying and designating charities that finance al Qaida, Hamas and other terrorist organizations. In addition, we continue to work closely with the Arab and Muslim communities, as well as the charitable sector at large, to develop voluntary guidelines and practices to help protect the integrity of the charitable sector and ensure confidence in the donor community.

"When you open your hearts to charity during Ramadan, we encourage you to educate yourself on the activities of the charities to which you donate, to help ensure that your generosity is not exploited for nefarious purposes.

"The kindness of Muslim Americans, and the generosity of people of all faiths, truly makes our world a better place. Happy Ramadan, Ramadan Mubarak," said Snow.

U.S. Department of the Treasury Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities:
http://www.treas.gov/press/releases/docs/tocc.pdf

The following charitable organizations have been designated by the United States Government for supporting terrorism:

- Makhtab al-Khidamat/Al Kifah (formerly U.S.-based)
- Al Rashid Trust (Pakistan)
- WAFA Humanitarian Organization (Pakistan, Saudi Arabia, Kuwait and UAE)
- Rabita Trust (Pakistan)
- The Holy Land Foundation for Relief and Development (U.S.)

- Ummah Tamer E-Nau (Pakistan)
- Revival of Islamic Heritage Society (Kuwait, Afghanistan and Pakistan)
- Afghan Support Committee (Pakistan)
- Aid Organization of the Ulema (Pakistan)
- Global Relief Foundation (U.S.)
- Benevolence International Foundation (U.S.)
- enevolence International Fund (Canada)
- Bosanska Idealna Futura (Bosnia)
- Lajnat al Daawa al Islamiyya (Kuwait)
- Stichting Benevolence International Nederland (Netherlands)
- Al Aqsa Foundation (U.S., Europe, Pakistan, Yemen, South Africa)
- Commité de Bienfaisance et de Secours aux Palestiniens (France)
- Association de Secours Palestinien (Switzerland)
- Interpal (UK)
- Palestinian Association in Austria (Austria)
- Sanibil Association for Relief and Development (Lebanon)
- Al Akhtar Trust (Pakistan)
- Al Haramain Foundation (Afghanistan, Albania, Bangladesh, Bosnia, Ethiopia, Indonesia, Kenya, the Netherlands, Pakistan, Somalia, and Tanzania)
- Islamic African Relief Agency (Global network)
- Taibah International (Bosnia)
- Al-Haramain & Al Masjed Al Aqsa Charity Foundation (Bosnia)
- Al Furqan (Bosnia)

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 19, 2004
JS-2042

Treasury Officials to Join Bankers in Schools Across the Country to Promote the Wise Use of Credit

Treasury is teaming up with the American Bankers Association Education Foundation this week for the second annual Get Smart about Credit Day. Several Treasury officials will join local bankers across the country who are visiting colleges, high schools, freshman orientations, youth groups, and continuing education classes to teach students how to budget, use credit cards responsibly and build a positive payment history.

More information on Get Smart about Credit Day can be found at: http://www.aba.com/Consumer+Connection/getsmartaboutcredit.htm.

Media interested in covering these events should contact Treasury's Public Affairs Office at (202) 622-2960 or Catherine Pulley
with the ABA at (202) 663-5468. The following events are open to the press:

Jesus H. Delgado-Jenkins, Acting Assistant Secretary for Management
·South Division High School
1515 West Lapham Blvd.
Milwaukee, WI
10:15 am CDT

D. Scott Parsons, Deputy Assistant Secretary for Critical Infrastructure Protection
·Newark High School
14 Granville Street, Building G
Newark, OH
9:30 am. EDT

Sandra Pedroarias, Office of Financial Education Director of Outreach
·Miami Palmetto Senior High School
7460 SW 118th Street
Miami, FL
10:45 am EDT

Jeffrey Kupfer, Deputy Chief of Staff
·Taylor Allderdice High School
2409 Shady Avenue
Pittsburgh, PA
9:00 am EDT

South Fayette High School
2246 Old Oakdale Road
McDonald, PA
12:45 pm EDT

Michelle Brough, Senior Advisor to Assistant Secretary for Financial Institutions
·Harrisburg Area Community College
Gettysburg Campus
731 Old Harrisburg Rd.
Gettysburg, PA
8:45 am. EDT

Henrietta Holsman Fore, United States Mint Director
·Montgomery Blair High School
51 University Boulevard East
Silver Spring, MD
9:00 am EDT

Joseph Dillon, Senior Advisor to the Under Secretary for Domestic Finance ·Central Elementary School
5 Baxter Street
Buckhannon, WV
1:15 pm EDT

Edward Christovich, Office of Financial Education Director
·Fletcher High School
700 Seagate Avenue
Neptune Beach, FL
10:25 am EDT

Greg Zerzan, Deputy Assistant Secretary for Financial Institutions Policy
· Mt. Tabor High School
342 Petree Road
Winston-Salem, NC
9:45 am EDT

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 19, 2004
2004-10-19-16-45-49-16613

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $83,142 million as of the end of that week, compared to $82,817 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	October 8, 2004			October 15, 2004		
TOTAL		**82,817**			**83,142**	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,240	14,373	25,613	11,313	14,412	25,725
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,080	2,889	13,969	11,138	2,897	14,035
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			19,423			19,511
3. Special Drawing Rights (SDRs) [2]			12,769			12,827
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 8, 2004			October 15, 2004		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets

	October 8, 2004			October 15, 2004		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 20, 2004
JS-2043

Treasury Deputy Assistant Secretary Iannicola Applauds Youth Financial Education Efforts in Midwestern States

Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. applauded the financial education efforts of Junior Achievement staff from eight Midwestern states at the organization's Midwestern Regional Conference in Grand Rapids, Michigan today.

"Junior Achievement has been a powerful force in providing financial education to young people in so many communities across the United States and beyond," said Iannicola. "Here in Michigan, and throughout the Midwest, young people are on the road to becoming fiscally responsible adults because of the work of those gathered here. Please know that all of us at the Department of Treasury are supportive of your efforts and that we share your passion for financial literacy."

The Conference, which featured the theme "Make the Connection," will re-energize Junior Achievement field office leaders and staff from eight Midwestern states.

Junior Achievement, which is headquartered in Colorado Springs, Colorado, was founded in 1919 as a collection of small, after-school business clubs for students in Springfield, Massachusetts. It is a non-profit organization dedicated to educating and inspiring young people to value free enterprise, business and economics to improve the quality of their lives. Junior Achievement offers economic education programs that span grades K-12, with age-appropriate curricula designed to teach elementary students about their roles as individuals, workers, and consumers and to prepare middle-grade and high school students for the key economic and workforce issues they will face.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 20, 2004
js-2044

The Honorable John W. Snow Prepared Remarks: Wharton High School Tampa, FL October 20, 2004 **Updated Version **

Good morning! It's great to be here at Wharton High School. I'm excited to learn more about your "Pro Start" program and to enjoy the fruits of your labors at lunchtime.

Take it from someone who is more than a little bit older than you... many things will change in this world as the years go by, and you'll see many changes in this great, flexible, resilient economy of ours. But one thing that doesn't change is this: preparing for your career through lots of good education and training is a recipe for a lifetime of employment opportunity.

It's also true that training for jobs that don't exist isn't terribly helpful. Training for jobs that are available in your community is the smart approach, and I understand that's what "Pro Start" is all about.

And the restaurant industry is a terrific place not only to work, but to build a base for careers ranging from public relations to business ownership. It's an industry that employs about 12 million people, which makes it the nation's largest private-sector employer. According to the National Restaurant Association, more than 4 out of 10 adults have worked in the restaurant industry at some time during their lives, and the number of foodservice managers is projected to increase by 15 percent over the next ten years.

I recently met with a restaurant industry leader named Skip Sack, who got his start in the world of work as a dishwasher at Howard Johnson's. He worked hard, served in the military, and later went back to Howard Johnson's to work in their advertising department. His career in the industry has been extremely impressive, from restaurant ownership to management to serving on boards of national chains. Today Skip is, among other things, the Chairman of the Board of the National Restaurant Association – which is the sponsor of "Pro Start."

Skip proved that hard work and perseverance can bring you to the highest levels of professional achievement. And I know he agrees that having a good education and relevant job training makes you very desirable as a prospective employee; it makes you more likely to get any given job than the other folks who are applying for it. If you have knowledge and skills on your side, you can compete with anyone, anywhere – whether the other job-seekers are here in Tampa, or anywhere in the world.

Living in a place where the economy is growing also helps, of course. That's why stimulating and growing the United States' economy has been a priority for my boss, President Bush.

We have work to do, and critical economic goals to reach. That said, our economy has come a long way. When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and shook investor confidence.

We are fortunate that our economy is the most open, flexible, adaptive and resilient in the world. Our powerful core elements – small-business owners and entrepreneurs, an outstanding workforce, and the simple fact that we operate as a free market – have enabled us to recover from those very difficult economic times.

Sound monetary policy from the Federal Reserve Board helped our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

Here in Florida, the President's tax cuts allowed small-business owners to keep more of their business income, and encouraged them to invest in the growth of their companies. For example, nearly 1.4 million business taxpayers here in Florida will save money on their 2004 taxes.

Similarly, the tax cuts have allowed individuals to keep more of their income. More than 6.1 million Florida taxpayers will have lower income tax bills in 2004 thanks to the tax relief.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, according to the BLS's establishment survey, over 1.9 million jobs have been created since last August – 13 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day at near record rates. People are finding new, good jobs or getting a raise at work. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children. National income and national wealth have never been higher and according to the BLS survey of jobs, the broadest survey of the workplace, we have more people working today than at any other time in our history, and 3.2 million jobs have been created since December 2001, according to the Labor Department's Bureau of Labor Statistics Household Survey.

Here in Florida, I believe you economic recovery and growth means that you will be more likely to find a good job after you graduate. The state has generated 99,200 jobs so far this year, 16,600 of those in August alone. This is good news for those of you getting ready to enter the job market.

That said, we know we can do even better. There are also Americans who have lost their jobs and have struggled to find new ones, and new jobs cannot come soon enough for those folks. The question is: where will those jobs come from?

An important, ongoing truth of the American economy is this: the government won't and shouldn't choose what jobs are created; entrepreneurs and innovators will. Government's responsibility is to make sure they have the freedom to do so. And right at the center of job creation lie entrepreneurship and small businesses. They create two out of three new jobs in the U.S. and it is because of them that jobs are growing at such a good rate across the country.

That's why entrepreneurs and small-business owners are at the heart of President George W. Bush's economic policies. The President understands that creating an environment in which they can flourish is the essential ingredient in any recipe for economic growth. Often it is best if government simply gets out the way.

The "Pro Start" program here at Wharton is entrepreneurial in nature. It's that entrepreneurial spirit that works so well here in America. You're taking a different approach to preparing for life after high school, and it's working. I commend the staff, sponsors and students for making this such a great success.

Thank you again for having me here today; I look forward to learning more about all of you, and about "Pro Start," and wish you all the best in pursuing a lifetime of learning and successful careers.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 20, 2004
JS-2045

Iraq Removed from List of Countries Subject to Special Foreign Tax Credit Restrictions

Today the Treasury Department issued Revenue Ruling 2004-103 to reflect the decision of the Department of State to remove Iraq from the list of countries subject to the special foreign tax credit and other restrictions of Internal Revenue Code section 901(j) and related provisions.

U.S. tax rules generally allow taxpayers a credit against U.S. income tax for taxes paid to a foreign country. Special rules in sections 901(j) and 952(a)(5) generally deny foreign tax credits and impose other restrictions if income is attributable to countries with which the United States does not conduct diplomatic relations or which have been identified as sponsors of international terrorism. These restrictions cease to apply with respect to a particular country when the Secretary of State certifies to the Secretary of the Treasury that the country no longer meets these criteria. A list of countries described in section 901(j)(2)(A) and the periods for which they are subject to the restrictions of section 901(j) and related provisions is provided in Revenue Ruling 95-63.

The Department of State has certified that Iraq is no longer a country described in section 901(j)(2)(A) effective June 28, 2004. Accordingly, Revenue Ruling 2004-103 modifies the prior revenue ruling to reflect this determination effective for periods after June 27, 2004.

REPORTS

- The text of Revenue Ruling 2004-103

Part I

Section 901.—Taxes of Foreign Countries and of Possessions of United States.

Modification of Rev. Rul. 95-63. Rev. Rul. 95-63, 1995-2 C.B. 85, with respect to countries described in section 901(j)(2)(A) of the Internal Revenue Code ("Code"), is modified.

Rev. Rul. 2004-103

This ruling modifies Rev. Rul. 95-63, 1995-2 C.B. 85, which lists countries subject to certain special rules under sections 901(j) and 952(a)(5) of the Code.

LAW AND ANALYSIS

Sections 901, 902, and 960 of the Code generally allow U.S. taxpayers to claim a foreign tax credit for income, war profits, and excess profits taxes paid or accrued (or deemed paid or accrued) to any foreign country or to any possession of the United States.

Section 901(j)(1)(A) denies the credit for taxes paid or accrued (or deemed paid or accrued under sections 902 or 960) to any country described in section 901(j)(2)(A) if the taxes are with respect to income attributable to a period during which section 901(j) applies. Section 901(j)(1)(B) requires taxpayers to apply subsections (a), (b), and (c) of section 904 and sections 902 and 960 separately with respect to income attributable to such a period from sources within such country. In addition, section 952(a)(5) provides that subpart F income includes income derived by a controlled foreign corporation from any foreign country during any period during which section 901(j) applies to that forei country.

The special rules under sections 901(j) and 952(a)(5) cease to apply to a coun. .hen the Secretary of State certifies to the Secretary of the Treasury that such country is no longer described in section 901(j)(2)(A). Revenue Ruling 95-63 sets forth the countries which are (or were) described in section 901(j)(2)(A) and the period during which the special rules under sections 901(j) and 952(a)(5) apply with respect to each such country. Based on the certification by the Secretary of State, this revenue ruling states the date on which Iraq ceased to be described in section 901(j)(2)(A).

HOLDING AND EFFECTIVE DATES

The list of countries in Revenue Ruling 95-63 is modified by changing the reference to Iraq as follows:

Country	Starting Date	Ending Date
Iraq	February 1, 1991	June 27, 2004

For guidance on issues arising in a taxable year when section 901(j) ceases to apply to a country, see Rev. Rul. 92-62, 1992-2 C.B. 193.

EFFECT ON OTHER REVENUE RULINGS

This ruling modifies Rev. Rul. 95-63, 1995-2 C.B. 85, with respect to countries described in section 901(j)(2)(A) of the Code.

DRAFTING INFORMATION

The principal author of this revenue ruling is Mark R. Pollard of the Office of Associate Chief Counsel (International). For further information regarding this revenue ruling, contact Mr. Pollard at (202) 622-3850 (not a toll-free call).

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 20, 2004
JS-2046

Deputy Assistant Secretary Iannicola teaches Cleveland Youth to Save as Part of "Roll Your Change Week" at the Boys and Girls Club

Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. today participated in the 2nd Annual "Roll Your Change Week" at the Boys and Girls Club in Cleveland, Ohio. Today's event was one of many weeklong events sponsored by Cleveland Saves to increase awareness about saving money among Greater Clevelanders.

"Coins are how most children are introduced to the concept of money," Iannicola said. "Therefore coins are a great vehicle for teaching early lessons on saving. Today we showed kids how regularly setting aside something as insignificant as pocket change can add up to real money and can help form good savings habits."

It is estimated that there is over $10 billion in loose change sitting unproductively in homes across America not earning interest. During last year's "Roll Your Change Week," over 1,798 people deposited $152,355 into their savings accounts, which averaged out to $84 per person in new deposits. Every person who makes a deposit of rolled change at one of the 17 participating financial institutions during this special week will be eligible to win a $1,000 Series I Savings Bond.

Cleveland Saves is a nonprofit, community-based coalition consisting of over 200 Greater Cleveland banks, colleges, community development corporations, companies, credit unions, faith-based organizations, government and nonprofit agencies and trade unions. The Cleveland Saves program was developed to help Clevelanders build wealth by saving money. Individuals enrolled in the program are required to set a financial goal for themselves and design a simple plan to reach their savings goal.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 21, 2004
JS-2047

The Honorable John W. Snow
Prepared Remarks: Financial Forum at Banco Popular
Orlando, FL
October 21, 2004

Thank you so much for joining me for this forum today, and thanks to Banco Popular for hosting the event.

I'm looking forward to talking with you about Florida's economy, and about the national economy.

Floridians know as well as anyone what it takes to recover from adversity. That's what you are doing, after one of the worst hurricane seasons in history, and that's also what our national economy is doing, after suffering some of the worst economic blows we've ever known.

We are fortunate to live in a country that has an incredible, naturally resilient economy. But sometimes government does need to take action to steer it back on the right course, especially when outside forces cause harm.

In Florida, hurricanes left you needing a helping hand to get you back on your feet. That's why President Bush has signed legislation enacting hurricane relief assistance, carrying out his commitment to provide emergency assistance to areas affected by the recent hurricanes.

The hurricane relief package, which was included in the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, provides $11.6 billion in emergency relief to assist families, individuals, and communities in the wake of Hurricanes Charley, Frances, Ivan, and Jeanne.

Combined with the hurricane relief signed by President Bush on September 8, 2004, a total of $13.6 billion in emergency funding has been provided to assist those recovering from the recent natural disasters.

On the national level, we've recovered from different kinds of disasters, and we've come a long way. When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence.

We are fortunate that our economy is the most open, flexible, adaptive and resilient in the world. Our powerful core elements – small-business owners and entrepreneurs, an outstanding workforce, and the simple fact that we operate as a free market – have enabled us to recover from those very difficult economic times.

Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

Here in Florida, the President's tax cuts allowed small-business owners to keep more of your business income, and encouraged them to invest in the growth of their

companies. For example, nearly 1.4 million business taxpayers here in Florida will save money on their 2004 taxes.

Similarly, the tax cuts have allowed individuals to keep more of their income. More than 6.1 million Florida taxpayers will have lower income tax bills in 2004 thanks to the tax relief.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, over 1.9 million jobs have been created since last August – 13 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day at near record rates. People are finding new, good jobs. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children. National income and national wealth have never been higher.

That said, we know we can do better. New jobs cannot come soon enough for the people who have lost theirs. The question is: where will those jobs come from?

An important, ongoing truth of the American economy is this: the government won't and shouldn't choose what jobs are created; entrepreneurs and innovators will. Government's responsibility is to make sure they have the freedom to do so. And right at the center of job creation lie entrepreneurship and small businesses. They create two out of three new jobs in the U.S. and it is because of them that jobs are growing at such a good rate across the country.

That's why entrepreneurs and small-business owners are at the heart of President George W. Bush's economic policies. The President understands that creating an environment in which they can flourish is the essential ingredient in any recipe for economic growth. Often it is best if government simply gets out the way.

How to help our economy right itself when it is in distress is a lesson in American history. We know from long experience that our economy responds best to the very thing that created it: freedom.

Free trade. Freedom from excessive taxation. Freedom from abusive, frivolous lawsuits and of course freedom from terrorist assaults.

When freedom, fairness and American entrepreneurs are combined, the end product is jobs and growth. Add relevant worker training to that equation, and you have high employment-and that's the path we're on.

We have plenty of work to do – in Florida and across America. But if we continue on the path of freedom and making sure individuals, entrepreneurs and family businesses have an open and fair environment in which they can work and grow, our best economic days will remain ahead of us and I am optimistic about our future.

I look forward to our discussion; let's get started.

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I look forward to our discussion; let's get started.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 21, 2004
JS-2048

Treasury Officials Join Bankers in Schools Across the Country to Promote Financial Education

Officials from the U.S. Treasury Department teamed up with local bankers from around the country today for the second annual Get Smart about Credit Day. Partnering with the American Bankers Association Education Foundation, ten Treasury officials visited high schools, a community college, and an Airmen Leadership School to teach young people how to budget, use credit responsibly, and build a positive credit history.

"Today young people all across America are learning how to get control of their financial futures by managing their use of credit. Mismanagement of credit can cause a host of problems, including late fees, garnishment, repossession and bankruptcy," said Treasury's Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. "However, the wise use of credit can bring into reach things like a higher education, a home or a car. The difference is education."

The ABA Education Foundation, a non-profit subsidiary of the American Bankers Association, develops and provides financial literacy educational programs. The foundation has supported the banking industry in teaching personal finance skills in schools and communities across the country. It provides programs that are specifically created for young children, teenagers, and adults to provide them with the skills they need to budget, save, and manage credit.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 21, 2004
JS-2049

The Honorable John W. Snow
Prepared Remarks: Florida Bankers Association's Leadership Dinner
Orlando, Florida

It's wonderful to be here this evening; thank you so much for having me.

It's always a pleasure to visit this wonderful state, and I'm delighted to see the resiliency and the perseverance of the people of Florida after one of the worst hurricane seasons on record.

On that topic, I want to begin today by thanking all of you who made funds available early for September's Social Security direct-deposit payments. Hurricane Frances was approaching, and honoring those direct deposits early was the definition of being a good neighbor. You came to the aid of your customers in their time of need, and it was a display of instinctive compassion that showcased the very human side of the banking industry.

Floridians understand how to prepare for, deal with and recover from adversity. You also understand the special sense of community that comes from pulling through something together.

I deeply appreciate the work you do, both for our economy and for our country's safety.

As bankers, your role in our economic strength is critical. From simple checking accounts to small business lending, you are a critical partner in the financial health of your customers... and their financial health determines that of the nation.

These have been busy years for you. The sound fiscal policies of low interest rates and tax cuts combined to give citizens more financial options, and more incentives to invest in their futures.

As bankers you've also faced new challenges associated with fighting the financial war on terror, and I want to talk more about that later.

Thanks to the your efforts, the work of your customers, the sound fiscal policies that came from the Federal Reserve Board and the President's tax cuts, our nation's economy is doing quite well. But there is still much to be done, and much that you will be doing to help.

Small business lending, for example, is awfully important. Small business is at the foundation of this great economy.

Small business is where the jobs come from. We estimate that seven out of ten new jobs are coming from that sector.

In addition to providing your small-business customers with the capital they need to start and grow, there is a new product that I would also encourage you to market to them, and that's Health Savings Accounts (HSAs).

The recently enacted Medicare prescription drug bill created HSAs, an innovative new program to empower consumers to make better health care choices. HSAs are really super-charged IRAs that put patients back in charge of their health care. You

own it, you control it, you can leave it to your heirs.

It's a new option for health coverage that is good news for individuals and employers who are struggling with their health-care costs.

I have good news for banks when it comes to offering this new product: first, any bank is automatically allowed to offer HSAs to your customers as either a trust or a custodial account.

Second, the reporting on these accounts is minimal. You only need to report on them once a year – to the customer and the IRS – one form to report contributions to the account and another form to report the amount that has been taken out of the account.

Best of all: you won't need any new forms. Treasury has model forms that you can use, or you can adapt the forms you use for IRAs for HSAs.

In terms of the market for this product, I believe the future is bright. As small-business customers research the services you offer, adding HSAs to your portfolio are bound to make you more attractive as the small-business financial service provider of choice.

I believe the business opportunity for you is great.

HSAs are a critical step toward increasing the availability and affordability of health insurance for all Americans. They are also helping to put individuals in charge of their own health care… and that's something that is good news both for the American family and for the American economy as a whole.

Rising health-care costs are one of many factors that can act as a drag on our economic health. And while our economy is the strongest and most resilient in the world, it is important that we keep the burdens on free enterprise as light as possible.

We want fairness and freedom for America's small-business owners. It's not fair to add additional burdens to their already-heavy load. Lightening those burdens gives them the freedom they need to open a business, expand it.

Lower costs for health insurance reduces one of the top burdens on America's smallest employers – the employers who are also creating most of the new jobs.

Lowering their tax burden is critical for their health as well, and that's why the President's tax cuts paid particular attention to small business. In 2004, 25 million small business owners will receive tax relief totaling about $75 billion.

Nearly 1.4 million business taxpayers here in Florida will have lower tax bills this year.

Similarly, the tax cuts have allowed individuals to keep more of their income. More than 6.1 million Florida taxpayers will have lower income tax bills in 2004 thanks to the tax relief.

Those tax cuts helped to offset the serious blows to the U.S. including, in rapid succession, the bursting of the stock market bubble back in March of 2000, the economy in steep decline which President Bush inherited, the terrible behavior by high ranking corporate executives who forgot their duties to shareholders, workers and pensioners, and of course September 11th which took such a toll. President Bush saw the urgent need to act, to put oxygen into the economy and because of his leadership the American economy is now getting back onto a good course.

I am often asked: what is the most important thing I can do, as Treasury Secretary, to strengthen the American economy? And I think that people appreciate the economic significance of tax cuts... that is the obvious answer. But it strikes me that this question is even better answered by Education Secretary Rodney Paige. For nothing will have a bigger, more lasting impact on the American economy than educating and preparing America's workforce for the jobs of today and tomorrow.

Primary, secondary and continuing education - for generations to come - are by far the most important efforts toward achieving continued economic prosperity.

While recent economic recovery and growth has been impressive – with 1.9 million new jobs created in the past13 months, strong GDP growth, and homeownership at an all-time high – we are not satisfied, and we must always seek ways to increase growth and job creation.

While no one can really predict what the next high-growth industry will be, in a country where innovation is so wonderfully strong we know there will be plenty of jobs for our families. The state of Florida overall has had some outstanding news on jobs, with 16,600 created in August and 99,200 created so far this year.

I want to commend you for your contributions to this terrific economic growth, and I also want to thank you for the work you've done that has helped to keep your country safe as well as prosperous.

Six weeks ago, we marked the third anniversary of September 11th, and I was once again reminded of the tremendous resolve in the financial community that came out of that day... resolve to cut off the terrorists' lifeblood: their money.

Institutions large and small committed themselves to the task.

America's financial institutions have done everything that the Treasury Department has asked of you during this fight, and I want to personally thank you for your efforts.

Your compliance with Section 314 of the Patriot Act – which requires everyone to share information – has been exemplary.

We've asked that you cross-check a list of terrorists and their partners, sent to you by Treasury's Financial Crimes Enforcement Network (FinCEN), every two weeks, against your customer databases.

It's a big job to keep up with these lists, and it's one that is never finished. You're doing it, and our country is safer because of it.

The list that comes to you from FinCEN is an important tool... but it would be useless without your partnership. We're in this together.

We've also asked you to comply with Section 326 of the Patriot Act, which has to do with record keeping. And I want you to know that you do have flexibility under those regulations... we've worked hard to make sure that your customers are able to use as many forms of identification as possible under those rules. We hope the flexibility makes it easier for you to be vigilant.

And we're always looking for ways to provide you with more and better information about our regulations. So let's keep up the dialog... let us know when we're confusing you, or when we can do better – because the better our regulations are understood by you, the more successful our critical enforcement efforts will be.

I know that complying with the regulations is burdensome, but it's for an important cause. We want to work with you to ease the regulatory burden while tightening our grasp around terrorist financiers.

Working together, we have accomplished a lot on this front of the war on terror in the last three years. The United States has designated 393 entities as terrorists or supporters of terrorists and frozen over $142 million in terrorist-related assets.

Our efforts are making a difference. So please know that we appreciate our working relationship on the war on terror, and that we view you as a partner in other critical ways, as well.

You're also a partner in the effort to increase financial literacy and protect our citizens from identity theft. Both programs are critically important to the citizens of

America.

You do so much for your customers, and for your country... I'm thrilled to be here with you today, and thrilled to have you as a partner in so many efforts.

I look forward to continued work with you on all fronts, and am pleased to share with you an optimism and enthusiasm for the future of the American economy. We have a shared belief that our best days are ahead of us. I am pleased to be working toward that future together.

Thank you for having me here today.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 21, 2004
JS-2050

New Directions for U.S. Economic Policy towards Japan and China
John B. Taylor
Under Secretary for International Affairs
United States Treasury
Deer Creek Club
St. Louis, Missouri
October 21, 2004

It is a pleasure to be here tonight in St. Louis. The last time I spoke in St. Louis--just two weeks ago--the Cardinals won game 2 of the National League Division Series. Tonight it's game 7 of the National League Championship Series. I hope my visit here works again for the Cardinals.

Of course the real reason I'm here tonight is not to discuss baseball, but rather to discuss another topic of great importance to the people of St. Louis--economic policy.

My specific topic is economic relations between the United States--the largest economy in the world, and China and Japan, the second and third largest economies in the world, at least when you rank economies by purchasing power. Clearly the economies of China and Japan matter greatly for the United States and the world economy. The United States, China, and Japan account for over 40 percent of the world's GDP. China and Japan are the two largest trading partners of the United States, excluding our immediate neighbors, Canada and Mexico.

And you can see the economic importance of China and Japan right here in Missouri: Exports from Missouri to Japan increased by 35 percent in 2003 and exports from Missouri to China have increased by 100 percent. During the last three years, exports from Missouri have increased by an amazing 243 percent and 56 percent to China and Japan respectively.

So getting these two economic relationships right has been a high priority of the Bush Administration, and in fact these relationships have changed directions in important ways under President Bush's leadership, as suggested by these amazing trade statistics. I want to focus on these new directions tonight.

Japan

Let me begin by recalling the economic situation in Japan at the start of the Bush Administration, three and a half years ago. Growth in Japan was near zero, much as it had been for the previous ten years – a period many economists called the "lost decade" in Japan. Moreover, Japan was experiencing a deflation that had persisted for more than six years. The deflation was holding back economic growth because consumers and businesses curtailed their spending plans, anticipating lower prices in the future. The deflation and lack of growth made it difficult for people to service their loans, so non-performing loans at banks were growing and threatening the banking system.

A Japan in economic stagnation was clearly not in the interests of the United States. Japan is an important ally. Stronger economic growth would benefit the United States and the world. Stronger growth would provide the resources to help Japan play a key role with the United States and other allies in providing security and development assistance.

So, the lagging economy in Japan was a problem that President Bush and his

Administration wanted to help the Japanese solve. After years of stagnation, President Bush decided a new approach was needed. Two developments presented an opportunity for a change in direction. First, Prime Minister Koizumi was elected to the top leadership position in Japan. Second, the Bank of Japan announced that it would follow a new type of monetary policy called "quantitative easing." This announcement showed a willingness in Japan to take a fresh approach to the economic stagnation problem.

Presented with these opportunities, President Bush and his team developed a new approach for our economic relations with Japan. There were three key principles.

First, there would be no "Japan bashing." The President wanted our economic relations with Japan to be based on mutual respect and cooperation, not antagonism. Lecturing by the United States government had proven to be an unhelpful way of advancing prosperity in Japan. The title of a 1999 Brookings book "Troubled Times: U.S.-Japan Trade Relations in the 1990s" captured the problematic nature of the relation. The President called for a very free and frank exchange of views, but not lecturing one's friend.

Second, the Bush Administration emphasized monetary policy as the key way to overcome deflation rather than additional short-term fiscal stimulus boosts which had not sustained growth. We also focused on ways to address Japan's non-performing loan problems, which were closely related to the deflation.

Third, we concentrated on structural, or supply side, obstacles to achieving stronger long-term productivity growth, not on short-term solutions. This longer-term focus on issues such as de-regulation and entrepreneurship would make us more effective in working together with the Japanese authorities on ways to strengthen their economy and ours.

With these three principles in hand, work on implementation began.
When President Bush met with Prime Minister Koizumi in Camp David in June 2001, they began to talk about these economic issues – including the non-performing loan problem in Japan. President Bush supported the Prime Minister's reforms, saying to the press afterwards that: "I have no reservations about the economic reform agenda that the Prime Minister is advancing. He talks about tackling difficult issues that some leaders in the past refused to address." Their friendship and mutual respect--which set the tone for discussions at all levels--was symbolized by the frequent reference to the Prime Minister's favorite movie, High Noon, and how it reminded him of President Bush's strong determination and economic leadership.

At that Camp David meeting, the two leaders also announced the launch of a new bilateral economic initiative called the U.S.-Japan Economic Partnership for Growth. I recall the first senior official meeting under that new partnership in my Treasury office with our counterparts from Japan in October 2001. We discussed these issues as well as what actions the U.S. was taking to raise growth, in particular President Bush's then recently enacted tax cuts. There were many other meetings in the months and years that followed, including several in Japan. In each of these meetings and in public speeches, we stressed the three principles underlying our new approach.

I am very happy to say that this new approach has worked. We have tangible results. Economic growth in Japan has returned. Experts say it is more sustainable than they have seen in a dozen years. Deflation is receding. And all these successes have followed the needed policy changes: increased growth of the money supply and reduction of non-performing loans. And our Ambassador to Japan, Howard Baker, reports that relations between the United States and Japan have never been better.

To be specific about the economy, economic growth of 3.5 percent per year since the beginning of 2002 make this the strongest recovery in Japan since the bubble burst. Although risks remain, there are reasons for optimism that Japan's current recovery will prove more durable than the abortive recoveries of 1995-96 and 1999-2000. First, growth has been led by private demand, not artificially boosted by government spending. In addition, deflation has eased, with "core" consumer prices falling only 0.2 percent year-on-year in the most recent month after posting 0.8 percent declines just last year.

Japan's progress in cleaning up its banking sector will also sustain growth. The major banks are on track to cut reported non-performing loans in half to meet the government target of 4 percent of total loans by March 2005. And, after steady deterioration during most of the 1990s Japanese firms have made real progress in reducing their debt and improving profitability. Japanese corporations have raised profit margins and return-on-assets by more than half since late 1998.

The challenge for Japan now is to raise its potential growth rate from the current estimate of about 1½ percent per year, to deal with its rapidly aging society and its fiscal problems. Japan's fiscal deficit, at 8 percent of GDP, and debt stock, at 166 percent, are the largest relative to output of any G-7 country.

Prime Minister Koizumi's current top reform priority is privatizing the postal system, which includes the world's two largest financial institutions – Japan's Postal Savings and Postal Life Insurance systems. A successful privatization has the potential to vastly improve efficiency in Japan's financial markets. It also could drastically reshape the competitive environment in Japan.

With the Bush Administration's new approach to Japan, we are also seeing other results:

There is a new U.S.-Japan tax treaty, which will help facilitate U.S. investment in Japan. There is far greater acceptance of foreign direct investment today than just a few years ago, as Japan's people came to recognize the benefits from the capital and skills that foreign firms offer. Foreigners now hold major equity stakes and play management roles in Japanese auto manufacturers like Nissan, Mazda, and Subaru. Foreign firms now control roughly 20 percent of Japan's life insurance market, and account for more than 30 percent of trading volume on the Tokyo Stock Exchange.

And you can see the new openness of Japan's economy wherever you go in Japan. I visited a new retail outlet – Don Quijote's – during my most recent trip to Japan in May. The store, in downtown Tokyo, sells imported consumer goods ranging from televisions, to clothing, to sporting goods. I remember trying on a baseball glove and noting that the price was roughly the same as I'd pay at the Sports Authority or another U.S. store. That almost never would have been the case 10 years ago, when Japanese consumers routinely flew to Hawaii, not to enjoy the beaches but to go shopping.

This new direction for U.S.-Japan economic relations does not, of course, mean the end of all trade disputes or other frictions, but I believe the shared interest in a stronger, more vibrant Japanese economy will continue to shape U.S. economic policy towards Japan.

China

China's emergence as a major economy and trading partner is now so well known that it's hard to remember the autarkic country of a generation ago. During the 25 years since China decided to move toward a market economy, the Chinese economy has grown by 9½ percent per year. Now, as I previously mentioned, China is the second largest economy in the world and is a major contributor to world growth; in fact, in the last three years, the United States and China accounted for half of global growth. And exports from the United States to China are growing rapidly.

Yet, more imports from China have led to difficult adjustments and to complaints about Chinese trade practices. Most recently, groups in industry and Congress have focused on China's exchange rate, which has remained essentially unchanged since 1995. Some have called for increased trade barriers and economic isolationism.

To deal with these problems the Bush Administration decided early on to work with the Chinese to open further their markets and to move to a market-based flexible exchange rate. The entry of China into the WTO in 2001 presented the opportunity to change directions. As President Bush recently said, summarizing this approach, "The tendency in American politics is to fall prey to economic isolationism. That would be bad for our workers. It would be bad for our consumers....So I'm saying to places like China, you treat us the way we treat you. You open up your markets just

like we open up our markets. And I say that with confidence because we can compete with anybody, any time, anywhere so long as the rules are fair."

To implement this approach in the difficult and highly technical case of the exchange rate, the Administration decided that our economic relationship with China should feature candid senior-level discussions, multilateral support from other countries, and technical engagement. We emphasized the harm that disruptive trade actions could bring. We stressed that a flexible exchange rate would be good not only for the United States but also for China and the rest of the world. We showed that a flexible exchange rate would better enable China to conduct monetary policy and thereby contain inflation and avoid overheating. We argued that a market-based exchange rate would reduce concerns about exchange rate manipulation and unfair valuations.

Based on these principles, the Administration formulated and implemented a financial diplomacy strategy consisting of three parts.

First, the Administration initiated an unprecedented level of engagement between senior American and Chinese leadership, urging them to move more rapidly to a flexible, market-based exchange rate. President Bush, Vice President Cheney, Secretary Snow and other cabinet members have all been involved in this effort.

Second, the Administration has built multilateral support for greater exchange rate flexibility in China. For example, one year ago, for the first time, the G7 Finance Ministers and Central Bank Governors as a group called for exchange rate flexibility in large economies such as China, and they have repeated this joint call several times since then. And earlier this month in Washington, in a historic first, the G7 Finance Ministers and Governors met as a group with their Chinese counterparts and had a candid engagement on the exchange rate issue.

Third, the Bush Administration has worked intensively with the Chinese on the essential technical economic and financial steps needed move to exchange rate flexibility. A detailed timeline of measurable reform actions was developed. Secretary Snow appointed an emissary, Ambassador Paul Speltz, to the Chinese government on the exchange rate issues, and the Ambassador has held many operationally-oriented talks with the Chinese authorities and the business community.

The Administration began a technical cooperation program last year as a means to accelerate reforms in the financial sector and currency regime. Talks have been held this year on foreign exchange risk, the use of derivatives, financial instruments to manage currency risk, banking systems and foreign exchange futures markets. The Chinese have publicly acknowledged the value of this program, and I am convinced that it will facilitate a faster move to a flexible exchange rate regime in China. Just last month at the time of the G7 meetings in Washington China "reaffirmed its commitment to further advance reform and to push ahead firmly and steadily to a market-based flexible exchange rate." And China has made measurable progress on this reform agenda. Specifically, it is relaxing restrictions on the capital account, restructuring its banking system, taking steps to develop the foreign exchange market, and building the trading systems necessary to hedge currency risk. But our job is not finished, and we will continue to engage with them frequently and firmly.

The Administration has also been actively engaging with China on trade, agriculture and intellectual property rights. We are working to insure that the Chinese generally fulfill their WTO commitments. In financial services, China has allowed GM and Ford Motor to provide motor vehicle financing to Chinese car buyers. And, onerous funding and capitalization requirements for branching in both banking and insurance have been lowered.

China accelerated steps to allow U.S. companies to import, export, distribute, and sell products in China without using local state trading companies. China has also agreed to non-discriminatory tax treatment for U.S. integrated circuits in China, the world's fastest growing semiconductor market.

The United States has also promoted steps in China to expand agricultural trade. China's commitment to reduce barriers in agriculture within the WTO has helped spur growth in trade with the United States. The United Stats exported a record $5

billion in agricultural goods to China in 2003, and U.S. agricultural exports to China in the first seven months this year rose by 35 percent over the same period last year. In addition, China has agreed to implement new procedures and issue new product approvals for U.S. biotech soybeans, canola and corn and twelve U.S. biotech products have now been approved. Finally, as a result of U.S. efforts, China has relaxed market constraints on soybeans and cotton trade, resulting in an all-time high in soybean exports to China during 2003 and a 431 percent increase in cotton exports in 2003 over the previous year.

Despite these significant, tangible improvements, a major concern for the United States government remains China's failure to provide adequate protection for, and enforcement of, intellectual property rights. Real progress in this area requires China to show significant reductions in infringements of intellectual property rights and substantial improvements in enforcement.

Looking ahead, the Administration will continue to engage with China on banking sector reform, and financial market development, as well as the exchange rate. We will continue to insist that China live up to its commitments in joining the WTO and in abiding by the rules of the international trading system.

Concluding Remarks

The Bush Administration views the Japanese and Chinese economies and their increasing integration into the global trade and financial system as a tremendous opportunity for U.S. workers and businesses in producing the goods and services that an expanding Asian economy will demand. The economic relationships between the United States and Japan and between the United States and China have changed direction under President Bush's leadership and the results have already been excellent. For the first time in many years, Japan is growing again, providing support to global growth and continued expansion in the United States. China is opening up its markets to agriculture, financial services, and other U.S. exports and it is taking concrete steps needed to create a market-based flexible exchange rate.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 22, 2004
JS-2051

Treasury and IRS Issue Guidance on Information Reporting of Dividends from Foreign Corporations

Today, the Treasury Department and the IRS issued guidance on 2004 information reporting of dividends from foreign corporations that are paid to individuals and that may be eligible for reduced rates of tax. Notice 2004-71 provides guidance for persons required to prepare form 1099-DIV and other information reporting with respect to dividends from foreign corporations and for individuals receiving such forms.

Form 1099-DIV includes a separate box identifying the amount of dividends eligible for reduced rates of tax. A dividend paid by a foreign corporation is eligible for the reduced rates if it satisfies the special rules applicable to foreign dividends. Last year, the Treasury Department and the IRS provided simplified procedures for 2003 information reporting of foreign dividends on Form 1099-DIV. Today's notice extends those simplified procedures to apply to 2004 information reporting.

The Treasury Department and the IRS intend shortly to issue detailed guidance regarding information reporting procedures to be applied for future years. This guidance will be issued in proposed form in order to provide interested parties an opportunity to comment.

REPORTS

- A copy of Notice 2004-71

Part III - Administrative, Procedural, and Miscellaneous

Information reporting and other guidance regarding distributions with respect to securities issued by foreign corporations.

Notice 2004-71

SECTION 1. OVERVIEW

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27, 117 Stat. 752) (the "2003 Act") was enacted on May 28, 2003. Subject to certain limitations, the 2003 Act generally provides that a dividend paid to an individual shareholder from either a domestic corporation or a "qualified foreign corporation" is subject to tax at the reduced rates applicable to certain capital gains. A qualified foreign corporation includes certain foreign corporations that are eligible for benefits of a comprehensive income tax treaty with the United States which the Secretary determines is satisfactory for purposes of this provision and which includes an exchange of information program. In addition, a foreign corporation not otherwise treated as a qualified foreign corporation is so treated with respect to any dividend it pays if the stock with respect to which it pays such dividend is readily tradable on an established securities market in the United States.

This notice provides guidance for persons required to make returns and provide statements under section 6042 of the Internal Revenue Code regarding distributions with respect to securities issued by a foreign corporation, and for individuals receiving such statements. This notice provides generally that the simplified procedures and other rules contained in Notice 2003-79 are extended to apply for 2004 information reporting of distributions with respect to securities issued by foreign corporations.

SECTION 2. NOTICE 2003-79

In November of 2003, the Treasury Department and the IRS issued Notice 2003-79, 2003-50 I.R.B. 1206, which provided guidance for persons required to make returns and provide statements under section 6042 of the Internal Revenue Code (e.g., Form 1099-DIV) regarding distributions with respect to securities issued by a foreign corporation, and for individuals receiving such statements. Notice 2003-79 identified a series of separate determinations that must be made in order to determine whether a distribution with respect to a security issued by a foreign corporation is eligible for the reduced rates of tax under the 2003 Act. Notice 2003-79 provided simplified procedures to be used for 2003 information reporting of a distribution with respect to such a security. Notice 2003-79 also provided guidance regarding the determination as to whether a security (or an American depositary receipt in respect of such security) issued by a foreign corporation other than ordinary or common stock (such as preferred stock) is considered readily tradable on an established securities market in the United States for purposes of the 2003 Act.

In addition, Notice 2003-79 described certification procedures the Treasury Department and the IRS intend to develop for use for information reporting in future years of distributions with respect to securities issued by foreign corporations. Notice 2003-79 requested comments on the proposed certification procedures outlined, and several comments were received.

SECTION 3. GUIDANCE FOR 2004

.01 Generally.

After reviewing the comments received and working further to develop procedures as outlined in Notice 2003-79, the Treasury Department and the IRS have concluded that it is appropriate to issue more detailed guidance setting forth the specific procedures to be used for information reporting in proposed form in order to provide interested parties an opportunity to comment. In order to allow for the issuance of proposed procedures and the consideration of comments before such procedures are finalized, the Treasury Department and the IRS are extending to 2004 information reporting the simplified procedures that were provided in Notice 2003-79 for 2003 information reporting.

Section 3.02 of this notice provides guidance regarding whether a security is readily tradable on an established securities market in the United States for purposes of section 1(h)(11). Section 3.03 summarizes guidance for 2004 information reporting of a distribution with respect to a security issued by a foreign corporation. Section 3.04 provides guidance for 2004 for recipients of Form 1099-DIV.

.02 Readily Tradable.

Notice 2003-79 provided guidance for 2003 regarding whether certain securities other than common or ordinary stock are considered readily tradable on an established securities market in the United States for purposes of section 1(h)(11). Upon further review, the Treasury Department and the IRS have concluded that the guidance provided in Notice 2003-79 regarding this determination should be extended to future years. Accordingly, for 2004 and future years, a security (or an American depositary receipt in respect of such security) issued by a foreign corporation that is other than ordinary or common stock (such as preferred stock) will be considered readily tradable on an established securities market in the United States for purposes of the 2003 Act if the security is listed on a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934 (15 U.S.C. § 78f) or on the Nasdaq Stock Market as described in Notice 2003-71.

.03 Persons Required to File Form 1099-DIV.

The rules for 2003 information reporting of a distribution with respect to a security issued by a foreign corporation that are described in detail in sections 3.01 through 3.07 of

Notice 2003-79 will also apply for 2004 information reporting. Those rules are outlined in the following summary. For 2004, a person required to make a return under section 6042 shall report a distribution with respect to such a security in Box 1b of Form 1099-DIV as a qualified dividend if:

1. either the security with respect to which the distribution is made is a common or an ordinary share, or a public SEC filing contains a statement that the security will be, should be, or more likely than not will be treated as equity rather than debt for U.S. federal income tax purposes; and
2. either:
   a. the security is considered "readily tradable on an established securities market in the United States";[1]
   b. the foreign corporation is organized in a possession of the United States; or
   c. the foreign corporation is organized in a country whose income tax treaty with the United States is comprehensive, is satisfactory to the Secretary for purposes of section 1(h)(11), and includes an exchange of information program,[2] and if the relevant treaty contains a limitation on benefits provision, the corporation's common or ordinary stock is listed on an exchange covered by that limitation on benefits provision's public trading test, unless the person required to file an information return knows or has reason to know that the corporation is not eligible for benefits under that treaty; and
3. the person required to file Form 1099-DIV does not know or have reason to know that the foreign corporation is or expects to be, in the taxable year of the corporation in which the dividend was paid, or was, in the preceding taxable year, a foreign personal holding company (as defined in section 552), a foreign investment company (as defined in section 1246(b)), or a passive foreign investment company (as defined in section 1297);[3] and
4. the person required to make a return under section 6042 determines that the owner of the distribution has satisfied the holding period requirement of section 1(h)(11) or it is impractical for such person to make such determination.

The IRS will exercise its authority under section 6724(a) of the Code to waive penalties under sections 6721 and 6722 with respect to reporting of calendar year 2004 payments if persons required to file Form 1099-DIV make a good faith effort to report payments consistent with the rules summarized above and described in detail in sections 3.01 through 3.06 of Notice 2003-79. A person required to make a return under section 6042 may report a distribution in Box 1b as a qualified dividend even if the distribution

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[1] Notice 2003-71, 2003-43 I.R.B. 922, and section 3.02 of this notice provide guidance regarding when a security is considered readily tradable on an established securities market in the United States for purposes of section 1(h)(11).

[2] Notice 2003-69, 2003-42 I.R.B. 851, contains a list of qualifying treaties for this purpose.

[3] Notice 2004-70, 2004-44 I.R.B. 1, provides guidance regarding the extent to which distributions, inclusions, and other amounts received by, or included in the income of, individual shareholders as ordinary income from foreign corporations subject to certain anti-deferral regimes may be treated as qualified dividend income for purposes of section 1(h)(11).

does not satisfy these simplified information reporting procedures for 2004, subject to the applicable penalty provisions, as described in detail in section 3.07 of Notice 2003-79.

.03 Recipients of Form 1099-DIV for 2004.

For taxable years beginning in 2004, a recipient of Form 1099-DIV may treat amounts reported in Box 1b as qualified dividends, unless and to the extent the recipient knows or has reason to know that such amounts are not qualified dividends, as described in detail in section 3.08 of Notice 2003-79.

SECTION 4. EXPECTED GUIDANCE FOR FUTURE YEARS

The Treasury Department and the IRS are developing detailed procedures for implementing the certification approach for information reporting outlined in section 5 of Notice 2003-79. The Treasury Department and the IRS intend shortly to issue guidance setting forth those detailed procedures in proposed form. This will provide interested parties an opportunity to provide specific comments before the procedures are issued in final form to be effective for information reporting for future years.

SECTION 5. EFFECTIVE DATE

This notice is effective for taxable years beginning on or after January 1, 2004.

SECTION 6. PAPERWORK REDUCTION ACT

The information collection referenced in this notice has been previously reviewed and approved by the Office of Management and Budget as part of the promulgation of Form 1099-DIV. See OMB Control Number 1545-0110. This notice merely provides additional guidance regarding the proper filing of such returns and furnishing of such statements.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally tax returns and tax return information are confidential, as required by 26 U.S.C. § 6103.

SECTION 7. CONTACT INFORMATION

The principal author of this notice is Michelle L. Drumbl of the Office of Associate Chief Counsel (International). For further information regarding this notice contact Ms. Drumbl at (202) 622-3880 (not a toll-free call).

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 22, 2004
JS-2053

Treasury Official Recognizes Financial Education Program, Discusses Financial Literacy with Philadelphia Students

Treasury Under Secretary for Domestic Finance Brian Roseboro today presented the John Sherman Award for Excellence in Financial Education to Operation HOPE for its Banking on Our Future financial education program. Roseboro presented the award at the Imani Education Circle Charter School in Philadelphia following a joint teaching session where he and John Bryant, founder, Chairman, and CEO of Operation HOPE taught fourth and fifth graders the importance of money and how to manage it effectively. Actor and recording artist Tyrese joined Roseboro and Bryant to talk to the students about the importance of financial literacy.

"Any opportunity to teach young people about finances is an opportunity to provide them with vital tools they will use for the rest of their lives," said Roseboro. "This financial education program teaches students across the nation how to manage money in a practical manner. It has been very rewarding for me to teach and see firsthand the enthusiasm students have for financial education."

Banking on Our Future, which began in 1996, is a financial education program that targets youth ages 10 to 20. Volunteer banker-teachers work with public schools to teach students the fundamentals of banking, credit and investment using exercises developed by the program.

Operation HOPE is a national provider of financial literacy and economic empowerment programs. Through ongoing collaborations and long-term partnerships with leading government, private sector, and community interests, Operation HOPE works to bring self-sufficiency and a sustained spirit of revitalization to America's inner-city communities.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 22, 2004
JS-2054

**Secretary Snow to Visit Minneapolis, Minnesota
On Tuesday to Discuss U.S. Economy**

Treasury Secretary John W. Snow will visit Minneapolis, Minnesota on Tuesday, October 26 to meet with local franchise business leaders to discuss the President's efforts to strengthen the economy and create jobs.

"As a result of the President's economic leadership, we have overcome a recession and seen 13 straight months of job creation, totaling more than 1.9 million new U.S. jobs since August 2003," said Secretary Snow. "Minnesota has gained new jobs this year, and the President's tax reform policies have ensured that more than 1.9 million Minnesota taxpayers will have lower income tax bills in 2004."

During this trip to Minnesota, Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

Recent indicators show that President Bush's economic policies continue to move the economy forward. According to the Labor Department, the national unemployment rate was 5.4% in September – down 0.9 percentage point from a peak of 6.3% in June 2003 and the lowest rate since October 2001. At 5.4%, the unemployment rate is below the average of the 1970s, 1980s, and 1990s. Employment over the last year was up in 47 of the 50 states and the unemployment rate was down in all regions and in 45 of the 50 states.

The following events are open to the media, which must present media credentials or photo ID:

Tuesday, October 26

Franchise Business Roundtable
10:30 a.m. CDT
International Dairy Queen headquarters
7505 Metro Boulevard, Minneapolis, MN
** Media should arrive by 10:00 a.m.
** There will be a brief media availability immediately following the event

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 22, 2004
JS-2055

Celebrating and Learning from a Winning International Economic Strategy:
John B. Taylor
Under Secretary for International Affairs
United States Treasury
Written Version of Remarks before the St. Louis Gateway Chapter of the National Association of Business Economists
and the WeidenbaumCenter Forum
St. Louis, Missouri
October 22, 2004

Thank you for inviting me to speak here this morning. It is a special pleasure to be here on the morning after that Cardinal victory last night, with St. Louis fans in such a good mood. My talk will be about the global economy, rather than baseball, but I hope you will leave the talk in an equally good mood because we have a lot of good news to celebrate about the global economy. And just as we can learn from the winning sports strategy that brought the Cardinals victory, we can also learn from the winning economic strategy that is leading to this good global economic performance.

So I'm going to start by celebrating some important recent developments in the global economy. And then, with the goal of learning in mind, I'm going to try to answer the question: Why are global economic conditions so good? And how can we keep them at least as good and even make them better?

How Strong is the World Economy Right Now?

To answer this question let me review the recent data. The International Monetary Fund's most recent estimate of global growth for this year is 5 percent, higher than in thirty years. And there is no major economy in recession. In fact, most economies in the world are now growing at a healthy "goldi-locks" pace--neither too fast, nor too slow--suggesting that the global economic expansion will continue.

The United States is expanding at a sustainable pace--3.3 percent in the second quarter, with soon to be released data for the third quarter promising to look good again. Japan has also been growing nicely at 3.5 percent since the beginning of 2002, in contrast to its lost decade of the 1990s with near zero growth. China's rapid growth earlier in the year is slowing to a more sustainable pace, and the rest of Asia is again doing well after last year's SARS scare. In Latin America, growth has picked up in Mexico, Columbia, Peru, Chile, Brazil, and Argentina. Latin America grew at over 5 percent so far this year. Russia and most of the European economies are also growing strong. Even the French and German economies have shown signs of growth this summer.

One of the most auspicious developments in the world economy is that inflation is low in most countries, with global inflation much lower than in the 1990s. That inflation is low in emerging markets is especially significant. The average inflation rate in emerging markets was 65 percent in the mid 1990s. Now it is about 6 percent. Such a benign inflation environment in the United States and other large economies is more evidence that the global economic expansion should continue.

If you look around the world you see no major financial crises. This is in striking contrast to the 1990s when one financial crisis after another brought high interest rates and soaring unemployment to the economies of Latin America, Asia, and Russia. One reason for this favorable development is that contagion of financial crises across countries has diminished. Recall that contagion was a major concern in the 1990s. It was in 1998 that the default on Russia's debt caused financial

storms as far away as Africa, Latin America, and East Asia. In the more recent Argentina default in 1998 there was no contagion beyond Argentina's neighbor, Uruguay.

Another favorable development is that interest rate spreads between emerging market bonds and U.S. Treasuries are at historically low levels. The spreads are important measures of global risk. Spreads have come down markedly during the last two years. They have stayed down despite the forecasts early this year that spreads would rise sharply throughout the year as monetary tightening in the United States began.

Of course, good times are no reason to be complacent. One element of risk today is the high price of oil. Those higher prices are a drag on economic growth, but the global economy is strong and the expansion can withstand such shocks. But such risks are a reminder that we cannot be complacent, despite the otherwise excellent economic situation.

Why Are Economic Times Good?

A big part of the answer is found in economic policies--both better *domestic* policies implemented in the United States and other countries and better *international* economic policy implemented by the United States in partnership with the international community.

Better Domestic Economic Policies

The United States economy is growing--despite the setback of the downturn starting in 2000, the 9/11 terrorist attacks, and the corporate scandals--because of the timely response of monetary and fiscal policy. President Bush's tax cut in 2001 was extraordinarily well-timed to help deal with the recession. It helped bring us out of the downturn and make it one of the shortest and shallowest in U.S. history. The second round of tax cuts in 2003 also helped bolster the economy, and we will continue to see the benefits of that reduction in tax rates with higher growth throughout the expansion.

The Japanese economy is growing because Prime Minister Koizumi insisted on fundamental change, and monetary growth was increased and non-performing loans were reduced. Improved economic relations between the United States and Japan--led by President Bush and Prime Minister Koizumi--had a lot to do with these changes, as I will discuss later.

Similar explanations hold for other good performances, including the high growth and declining inflation under President Lula in Brazil and Prime Minister Erdogan in Turkey, two countries that had been plagued by crisis at the start of the Bush Administration. As with Japan, support by the United States for these allies and their economic policies has been important.

What about the decline of crises and risk spreads? One reason they are down is because of the more credible focus on price stability by central banks--aided by market-determined flexible exchange rates--that has largely ended the boom-bust cycle in many countries and is now laying the foundation for what may be the longest global boom we have ever seen. This trend began with the Federal Reserve years ago but has spread around the world in more recent years.

Better International Economic Policies

In addition, the international financial institutions have begun to reform, following calls by the Bush Administration and joined by many of our allies. Important reforms include greater clarity and predictability in the use of large-scale financing from the International Monetary Fund, the use of collective action clauses in emerging market debt, and the movement toward grants rather than loans at the World Bank.

Such reforms themselves--while still very recent in their implementation--improve confidence, showing that international financial officials can work to make needed changes in the international financial system. Greater transparency at central banks and governments has also helped to reduce contagion by enabling market analysts to better discriminate between countries that follow good policies and those that do

not.

There are a number of other international economic policy developments--many initiated by the Bush Administration--that are contributing to improved economic performance.

The Group of Seven-- Canada, France, Germany, Italy, Japan the United Kingdom and the United States--has been the forum for a number of important economic initiatives. The G-7 Agenda for Growth, which was implemented last year under U.S. leadership, has brought a greater multilateral focus to structural, supply-side policies, especially in Europe and Japan, to increase flexibility and boost productivity growth and employment. The shift we have seen toward supply side, pro-growth policies in the G-7 discussion has been marked in the last few years.

Another multilateral initiative of the G-7 – embodied in the Boca Raton communiqué – called for monetary policies based on market-determined flexible exchange rates in large countries such as China as the key to promoting price stability and smooth and widespread adjustments in the international financial system. And we are pleased that the Chinese joined the G-7 in an historic, first time engagement to discuss monetary and exchange rate issues at a meeting earlier this month.

To help improve growth and reduce poverty in the poorest countries, President Bush proposed the establishment of the Millennium Challenge Corporation, a new U.S. organization which will provide grant financing to very poor countries that are choosing good economic policies based on clear strategies for measuring progress toward stated results. This new corporation is now up and running, authorized and funded by Congress.

Yet another international initiative is the new U.S.-Japan Partnership for Growth established in 2001 by President Bush and Prime Minister Koizumi. It called for candid, but not antagonistic, discussions on how to promote sustained economic growth. Here we have focused on the importance of dealing with non-performing loans and deflation, and we are grateful, as mentioned above, that Japan has made important strides on these issues.

In another international effort, President Bush and President Lula created a new U.S.-Brazil Group for Growth, a bilateral forum to review and assess strategies to promote productivity growth and job creation. I am pleased to report that the government of Brazil has already observed a positive impact of this undertaking on small business lending programs.

Early in the Bush Administration, President Bush and President Fox of Mexico created The Partnership for Prosperity, a private-public alliance to promote investment in parts of Mexico where growth has lagged; this has already generated results in the form of falling costs of remittances. In fact, this experience helped spur a new global remittances initiative in the G-8, through which we hope to extend our success in Mexico to other parts of the world.

Most recently, President Bush, working together with his G-8 colleagues, has established a new Broader Middle East and North Africa initiative, designed to support economic freedom and financial integration in this crucial region. Very successful first meetings on economic issues have already occurred in Dubai and Washington, and a meeting in Morocco is being scheduled for later in the year. Finance ministers and central bank governors from both Iraq and Afghanistan attended and contributed to these meetings.

And in one of the most important policy developments, the Bush Administration is following a multi-pronged trade agenda to reduce trade barriers through the Doha Development Round, as well as bilateral and regional trade agreements. Free trade agreements with Chile, Singapore, Australia, Morocco, Bahrain, and Central America are either already in law or nearly finished.

Concluding Remarks

I think it's fair to conclude that this is a remarkable record of policy achievements. But the main lesson to learn from this list of achievements is that economic policies are actually improving--both domestically and internationally--and along with them

economic performance is also improving. There are indeed future challenges and there is, of course, room for improvement. Nevertheless, such accomplishments should give us confidence that by continuing and expanding this winning strategy we can we can tackle these future challenges.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 22, 2004
JS-2056

Remarks on the Occasion of the One-Year Anniversary of the Iraq Currency Exchange
John B. Taylor
Under Secretary of the Treasury for International Affairs
October 22, 2004

One year ago this week the Iraqi people, working with the United States and our coalition partners, embarked on a difficult economic mission: to replace completely Iraq's deteriorating and easily counterfeited currency and to restore economic and financial stability to their ravaged economy. After years of hyper-inflation and falling incomes under Saddam's regime, everyone knew this was an essential reconstruction task. But many doubted that a nation-wide currency exchange could be accomplished – What if the Iraqis didn't accept a new currency? How would the new currency be distributed to millions of people in hundreds of cities and towns? What if terrorists sabotaged the distribution?

Now, one year later, a new currency is circulating throughout Iraq and the Iraqi currency exchange is hailed as a success. The exchange rate is steady, price stability has been restored, and economic growth this year is 50 percent, one of the highest rates in the world. The new Iraqi dinar is a sturdy and secure currency, imprinted with traditional Iraqi symbols – altogether a great improvement over the flimsy bills with Saddam's face. Demand for the new currency has been so strong that the Iraqi government has earned an amazing $5 billion in seignorage during the past year just supplying it. And Iraqis are using the newly-minted dinars to purchase goods-- fresh bananas from the Americas, chickens from around the world, new and used cars--at stable competitive prices in markets in Basra, Baghdad, Irbil and Mosul.

The Iraqis are building upon these successes as they take responsibility for their economic future. Iraqi officials in the newly constituted Central Bank now conduct monetary policy, supervise the banking system, and review the growing number of applications for banking licenses. At the Finance Ministry, Iraqis are developing next year's budget according to international best practices as laid out in their new Financial Management Law. Iraq has re-engaged with the international financial community; it just entered into a strong agreement with the International Monetary Fund, approved and welcomed by the all the G7 countries. Earlier this month, Iraq's Finance Minister was in Washington at the annual meetings of the IMF and World Bank to engage with the world's economic leaders and make the case for erasing a large part of the crippling international debt run up by Saddam. As President Bush mentioned in the St. Louis debate, the Finance Minister was amazed that the U.S. press coverage missed all this good economic news about his country.

The successful introduction of a new currency--one of the crucial first steps in the stabilization of Iraq's economy--did not occur by accident. It was the outcome of extensive and careful advance planning and close international cooperation begun in 2002 and culminating in the final approval by President Bush in the spring of 2003. I remember putting the plan forward in the White House situation room with the President asking tough questions of all of us--Treasury, Defense and State--about the economic significance, market acceptance, security, and logistics. Only after all his questions were fully answered did he give the go ahead.

Then the plans were put into operation with the Iraqis and the Coalition Provisional

Authority working together. To make this all happen, twenty-seven 747 planeloads of the new currency were printed in record time at seven different locations around the world. The currency was then flown into Baghdad, and distributed to over 250 distribution points all over the country. Millions of Iraqis came with bags full of old currency, and lined up to get the new currency. Finally, the old currency was destroyed. A retired U.S. general, who had been running a bank in the United States, volunteered to oversee logistical operations. He sent situation reports from Baghdad to Washington and other coalition capitals everyday. Each report concluded with his motto "Teamwork That Works!" And it did work.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 25, 2004
JS-2057

Treasury Identifies Cuban-Controlled Dot Com

The U.S. Department of the Treasury today identified the electronic money transfer business, SERCUBA, as a national of Cuba.

"As we have seen, the Castro regime uses a variety of schemes and businesses located not only in Cuba, but also in countries around the world to feed its military and security infrastructure – instead of the Cuban people. Today, we are financially isolating SERCUBA to make it more difficult for the Cuban regime to obtain the hard currency it uses to oppress its own people and to prop up its government," said Juan Carlos Zarate, Treasury's Assistant Secretary for Terrorist Financing and Financial Crime.

SERCUBA provides a means by which U.S. persons can forward remittances to Cuban nationals via a third country or through SERCUBA's own website. SERCUBA has a call center in Havana and sixteen offices located in Cuba, along with two offices abroad – one in Italy and one in Spain. The entity is organized under Cuban laws and is supported by Cimex, a Specially Designated National of Cuba.

Persons subject to U.S. jurisdiction may not engage in any transactions with SERCUBA unless authorized by Treasury's Office of Foreign Assets Control (OFAC), and all property of SERCUBA that is in the possession of persons subject to U.S. jurisdiction is blocked.

Today's action is part of the on-going effort by President Bush and his Administration to choke off dollars streaming to the Castro regime and to make it more difficult for the Cuban government to harden its internal security and military infrastructure. These efforts are part of the Bush Administration's overall strategy to hasten the day when the people of Cuba can live free, democratic lives. Both in October 2003 and May 2004, President Bush announced stepped-up enforcement of U.S. laws prohibiting travel-related transactions with the island.

Treasury's identification of Cuban-controlled businesses furthers these efforts by cutting the designees out of the U.S. financial system, therefore keeping more hard currency from flowing into the coffers of Castro's regime.

With today's announcement, the Treasury Department has now taken action against 13 Cuban-controlled entities since President Bush's October 2003 statement.

ENTITY
SERCUBA
a.k.a.: http://www.sercuba.com

Addresses

- Gral. Gómez #105 e/ Maceo e Independencia, Camagüey, Cuba
- Calle 29 #5218 e/ 52 y 54 Edif. Cimex, Cienfuegos, Cuba
- Libertad s/n, e/ Honorato del Castillo y Maceo, Ciego de Ávila, Cuba
- Calle 6 #408 esq. 3ra. Ave. Miramar Playa, La Habana, Cuba
- Edif. Las Novedades altos Ave. Frank Pais e/ Segunda y Aven. Figueredo. Rpto. Jesús Menéndez. Bayamo, Granma, Cuba
- Crombet s/n e/ Los Maceos y Moncada, Guantánamo, Cuba

- Frexes #216 e/ Maceo y Mártires, Holguin, Cuba
- Ave. 1ro. De Mayo s/n. Moa, Holguin, Cuba
- Vicente Garcia #28 e/ Julián Santana y Francisco Vega. Tienda La Nueva, Las Tunas, Cuba
- Calle 40 esq. Playa. Varadero, Matanzas, Cuba
- Calle Ayuntamiento e/ Medio y Rio, Matanzas, Cuba
- Gerardo Medina #633, Pinar del Rio, Cuba
- Independencia #171 Sur, altos, Sancti Spiritus, Cuba
- Félix Peña #565 e/ Jose A. Saco y Aguilera, Santiago de Cuba, Cuba
- Carretera Central Km. 298 Banda Esperanza, Villa Clara, Cuba
- Calle 39 e/ 30 y 32 Altos del Servi Cupet "El parque," Isla de la Juventud, Cuba.

For more information on previous identifications of Cuban-controlled entities, please visit the links below:

http://www.treasury.gov/press/releases/js1161.htm
http://www.treas.gov/press/releases/js1240.htm
http://www.treasury.gov/press/releases/js1852.htm

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 25, 2004
JS-2058

Treasury and IRS Issue Final Version of Tax Form for Corporate Tax Returns

Today, the Treasury Department and Internal Revenue Service released the final draft version of the Schedule M-3, Net Income (Loss) Reconciliation for Corporations with Total Assets of $10 Million or More, for use by certain corporate taxpayers filing Form 1120, U.S. Corporation Income Tax Return. The original draft version of Schedule M-3 was released for public comment on January 28, 2004, and a revised draft version was released on July 7, 2004.

Schedule M-3 is effective for any taxable year ending on or after December 31, 2004, and, in general, must be filed by a corporation required to file Form 1120, U.S. Corporation Income Tax Return, that reports on Form 1120 at the end of the corporation's taxable year total assets that equal or exceed $10 million. However, a corporation is only required to complete certain sections of Schedule M-3 in the first taxable year the corporation is required to file Schedule M-3.

This final draft version of Schedule M-3 was released in advance of the final Schedule M-3 instructions to provide affected taxpayers, tax software vendors, and other stakeholders immediate access to the form as they prepare to implement and comply with Schedule M-3. This final draft version reflects changes to the Schedule M-3 that the Treasury and IRS believe will greatly simplify completion of Schedule M-3. The Treasury and IRS do not anticipate any further changes to Schedule M-3 and expect that the final version of Schedule M-3 will be available and posted on www.irs.gov in early December, 2004.

The Schedule M-3 is attached and may be accessed on www.irs.gov. The final instructions for Schedule M-3 will be released as soon as possible and will also be available on www.irs.gov.

REPORTS

- Final draft Schedule M-3

SCHEDULE M-3 (Form 1120)

Department of the Treasury
Internal Revenue Service

Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More

▶ Attach to Form 1120.
▶ See separate instructions.

OMB No. 1545-0123

2004

Name of corporation (common parent, if consolidated return) | **Employer identification number**

Part I **Financial Information and Net Income (Loss) Reconciliation**

1a Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?

☐ **Yes.** Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.

☐ **No.** Go to line 1b.

b Did the corporation prepare a certified audited income statement for that period?

☐ **Yes.** Skip line 1c and complete lines 2a through 11 with respect to that income statement.

☐ **No.** Go to line 1c.

c Did the corporation prepare an income statement for that period?

☐ **Yes.** Complete lines 2a through 11 with respect to that income statement.

☐ **No.** Skip lines 2a through 10 and enter the corporation's net income (loss) per its books and records on line 11.

2a Enter the income statement period: Beginning ____/____/____ Ending ____/____/____

b Has the corporation's income statement been restated for the income statement period on line 2a?

☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)

☐ **No.**

c Has the corporation's income statement been restated for any of the five income statement periods preceeding the period on line 2a?

☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)

☐ **No.**

3a Is any of the corporation's voting common stock publicly traded?

☐ **Yes.**

☐ **No.** If "No," go to line 4.

b Enter the symbol of the corporation's primary U.S. publicly traded voting common stock . . . ☐☐☐☐☐

c Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock . . . ☐☐☐☐☐☐☐☐☐

Line	Description		Amount
4	Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1	**4**	
5a	Net income from nonincludible foreign entities (attach schedule) . . .	**5a**	( )
b	Net loss from nonincludible foreign entities (attach schedule and enter as a positive amount) . .	**5b**	
6a	Net income from nonincludible U.S. entities (attach schedule) . . .	**6a**	( )
b	Net loss from nonincludible U.S. entities (attach schedule and enter as a positive amount) . . .	**6b**	
7a	Net income of other includible corporations (attach schedule) . . .	**7a**	
b	Net loss of other includible corporations (attach schedule) . . .	**7b**	( )
8	Adjustment to eliminations of transactions between includible corporations and nonincludible entities (attach schedule) . . .	**8**	
9	Adjustment to reconcile income statement period to tax year (attach schedule) . . .	**9**	
10	Other adjustments to reconcile to amount on line 11 (attach schedule) . . .	**10**	
11	**Net income (loss) per income statement of includible corporations.** Combine lines 4 through 10 . . .	**11**	

Name of corporation (common parent, if consolidated return)	Employer identification number
Name of subsidiary (if consolidated return)	Employer identification number

Part II Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return

	Income (Loss) Items	(a) Income (Loss) per Income Statement (optional)	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return (optional)
1	Income (loss) from equity method foreign corporations				
2	Gross foreign dividends not previously taxed				
3	Subpart F, QEF, and similar income inclusions				
4	Section 78 gross-up				
5	Gross foreign distributions previously taxed				
6	Income (loss) from equity method U.S. corporations				
7	U.S. dividends not eliminated in tax consolidation				
8	Minority interest for includible corporations				
9	Income (loss) from U.S. partnerships (attach schedule)				
10	Income (loss) from foreign partnerships (attach schedule)				
11	Income (loss) from other pass-through entities (attach schedule)				
12	Items relating to reportable transactions (attach details)				
13	Interest income				
14	Total accrual to cash adjustment				
15	Hedging transactions				
16	Mark-to-market income (loss)				
17	Inventory valuation adjustments				
18	Sale versus lease (for sellers and/or lessors)				
19	Section 481(a) adjustments				
20	Unearned/deferred revenue				
21	Income recognition from long-term contracts				
22	Original issue discount and other imputed interest				
23a	Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and flow-through entities				
23b	Gross capital gains from Schedule D, excluding amounts from flow-through entities				
23c	Gross capital losses from Schedule D, excluding amounts from flow-through entities, abandonment losses, and worthless stock losses				
23d	Net gain/loss reported on Form 4797, line 17, excluding amounts from flow-through entities, abandonment losses, and worthless stock losses				
23e	Abandonment losses				
23f	Worthless stock losses (attach details)				
23g	Other gain/loss on disposition of assets other than inventory				
24	Disallowed capital loss in excess of capital gains				
25	Utilization of capital loss carryforward				
26	Other income (loss) items with differences (attach schedule)				
27	**Total income (loss) items.** Combine lines 1 through 26				
28	**Total expense/deduction items** (from Part III, line 36)				
29	Other income (loss) and expense/deduction items with no differences				
30	**Reconciliation totals.** Combine lines 27 through 29				

Note. Line 30, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

Name of corporation (common parent, if consolidated return)	Employer identification number
Name of subsidiary (if consolidated return)	Employer identification number

Part III Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items

	Expense/Deduction Items	(a) Expense per Income Statement (optional)	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return (optional)
1	U.S. current income tax expense				
2	U.S. deferred income tax expense				
3	State and local current income tax expense				
4	State and local deferred income tax expense				
5	Foreign current income tax expense (other than foreign withholding taxes)				
6	Foreign deferred income tax expense				
7	Foreign withholding taxes				
8	Incentive stock options				
9	Nonqualified stock options				
10	Other equity-based compensation				
11	Meals and entertainment				
12	Fines and penalties				
13	Punitive damages				
14	Parachute payments				
15	Compensation with section 162(m) limitation				
16	Pension and profit-sharing				
17	Other post-retirement benefits				
18	Deferred compensation				
19	Charitable contribution of cash and tangible property				
20	Charitable contribution of intangible property				
21	Charitable contribution limitation				
22	Charitable contribution carryforward used				
23	Current year acquisition or reorganization investment banking fees				
24	Current year acquisition or reorganization legal and accounting fees				
25	Current year acquisition/reorganization other costs				
26	Amortization/impairment of goodwill				
27	Amortization of acquisition, reorganization, and start-up costs				
28	Other amortization or impairment write-offs				
29	Section 198 environmental remediation costs				
30	Depletion				
31	Depreciation				
32	Bad debt expense				
33	Corporate owned life insurance premiums				
34	Purchase versus lease (for purchasers and/or lessees)				
35	Other expense/deduction items with differences (attach schedule)				
36	**Total expense/deduction items.** Combine lines 1 through 35. Enter here and on Part II, line 28				

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 26, 2004
JS-2059

The Honorable John W. Snow
Prepared Remarks: International Dairy Queen Headquarters
Minneapolis, MN
October 26, 2004

Good morning; it's great to be here in Minneapolis. I appreciate the opportunity to talk with you about the economy both here, and all across this great nation of ours.

It's a pleasure to be visiting International Dairy Queen Headquarters. I want to thank both Chuck Mooty, the CEO of Dairy Queen, and Brian Schnell, a member of the International Franchise Association board of directors, for hosting this event.

Owning and operating a franchise is a great way to be self-employed and to create jobs for the people in your community, so I want to commend all of the franchise owners here today.

As small-business owners, each one of you is the embodiment of America's economic strength and dynamism, and you are also the embodiment of something less tangible but even more important: the American Dream.

The work you do is critical to the health of your local and state economies. In part thanks to that work, the Minnesota economy has added 18,100 jobs to the payrolls so far this year. That's good news for a lot of Minnesota families... but I know it could be even better. We can't be satisfied until all Minnesotans who are looking for work have found new jobs.

I am often asked where the jobs of the future will come from – a month from now, a decade from now. That's a pretty tough question to answer. No one can predict what the next great technology or industry will be, but I know it's safe to say that most of America's jobs will always come from people like you and that by pursuing good economic policies, keeping our system open, flexible and dynamic, we will continue to create lots of good jobs in the future as our economic history shows so well.

Your businesses may be small. They may never show up on the New York Stock Exchange or the Fortune 500 list... but they create jobs for the people of your community, and that means everything. In fact, 2 out of 3 new jobs come from small businesses.

When our country goes through a rough patch, economically, small business has always been there to pull us out. You are part of the most powerful elements of our economy, which I see as a combination of: small-business owners and entrepreneurs, our outstanding workforce and the simple fact that we operate as a free market, which allows our economy to continuously adjust to changing circumstances. These elements add up to the most open, flexible, adaptive and resilient economy in the world today.

The President understands how important you are to our economy, and he's made you a priority in his economic policies.

He understands that, as small-business owners and operators, fairness and freedom are the two things that you really want from your government.

You seek the freedom to start up a new business venture, to run it and grow it, or –

as the head of the National Federation of Independent Business told me recently – to close the door and go fishing for the afternoon if that's what you want to do!

You also want to be treated fairly, and you deserve nothing less.

In exchange for fairness and freedom, your unspoken promise to your country and our economy is: job creation and the fuel our economic engine runs on.

This is why the President reduced your taxes and has called on Capitol Hill to give you the option of Association Health Plans to reduce your health insurance costs. That's why he wants to make the tax code simpler, fairer, and more pro-growth. And it's why he wants to reduce that fear of baseless lawsuits that haunts you, costs you money, and ultimately acts as a tax on economic growth in this country.

With small business in the lead, our economy has come a long way.

When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence.

Those key elements that I mentioned earlier – small business, outstanding workers, and a free-market system – proved to be the foundation, as they always have been, for our impressive economic recovery following this series of economic blows.

Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, over 1.9 million jobs have been created since last August – 13 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day at near record rates. People are finding new jobs in industries across the board. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children.

The President's tax relief is still working for the people of Minnesota, with more than 1.9 million taxpayers saving money on their income tax bills in 2004 and 480,000 business taxpayers like you able to use your 2004 tax savings to invest in business equipment and employee compensation.

Nationwide, in 2004, 25 million small business owners will receive tax relief totaling about $75 billion.

At this point, it is critical to make that tax relief permanent, and to continue lifting the barriers to growth in other areas as well – by making health care more affordable, abusive lawsuits less common, and energy costs more reasonable.

Thank you so much for having me here today in this great American city, and thank you for the work you do to keep our economy strong.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 26, 2004
JS-2060

MEDIA ADVISORY:
Secretary Snow To Visit Cedar Rapids, Iowa
on Wednesday to Discuss U.S. Economy

Treasury Secretary John W. Snow will visit Cedar Rapids, Iowa on Wednesday, October 27 to meet with local business leaders to discuss the President's efforts to strengthen the economy and create jobs.

"As a result of the President's economic leadership, we have overcome a recession and seen 13 straight months of job creation, totaling more than 1.9 million new U.S. jobs since August 2003," said Secretary Snow. "Iowa has gained new jobs this year, and the President's tax reform policies have ensured that more than 1 million Iowa taxpayers will have lower income tax bills in 2004."

During this trip to Iowa, Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

Recent indicators show that President Bush's economic policies continue to move the economy forward. According to the Labor Department, the national unemployment rate was 5.4% in September – down 0.9 percentage point from a peak of 6.3% in June 2003 and the lowest rate since October 2001. At 5.4%, the unemployment rate is below the average of the 1970s, 1980s, and 1990s. Employment over the last year was up in 47 of the 50 states and the unemployment rate was down in all regions and in 46 of the 50 states.

The following events are open to the media, which must present media credentials or photo ID:

Wednesday, October 27

Tour of precision contract manufacturer In Tolerance

and Roundtable with Local Business Leaders

11:00 a.m. CDT

In Tolerance, a precision contract manufacturer

126 29th St. Drive, SE

Cedar Rapids, IA

** Media should arrive by 10:30 a.m.

** There will be a brief media availability immediately following the event

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FROM THE OFFICE OF PUBLIC AFFAIRS

October 26, 2004
2004-10-26-12-48-3-16345

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $84,067 million as of the end of that week, compared to $83,142 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	October 15, 2004			October 22, 2004		
TOTAL		83,142			84,067	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,313	14,412	25,725	11,465	14,643	26,108
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,138	2,897	14,035	11,284	2,943	14,227
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			19,511			19,723
3. Special Drawing Rights (SDRs) [2]			12,827			12,966
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 15, 2004			October 22, 2004		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets

	October 15, 2004			October 22, 2004		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 26, 2004
js-2061

"Agenda for the new Indonesian Administration: a Rijsttafel of Policy Measures" David P. Loevinger Deputy Assistant Secretary of Treasury for Africa, Middle East and Asia

Remarks Presented at the USINDO/DAI Conference Luncheon Washington, D.C. October 21, 2004

Thank you for the opportunity to explain Treasury's view on the new Indonesian government's agenda. The U.S. Treasury does not spend nearly as much time on Indonesia now as it did when I returned to Treasury from the IMF in January 2000 – and that's a very good thing. This is not because Indonesia is not as important but because Indonesia has made significant progress.

With over 250 million people – the world's largest Muslim democracy – the path that the new government embarks on is important not only to Indonesia but to the United States and the world. That's why I'm here today. Since I am a Finance Ministry official and many areas have already been covered this morning by others, I would like to focus my remarks on three issues Treasury views as critical for the new Administration to tackle early on: continued fiscal consolidation, the investment climate and banking reform.

Much Progress since 1998

First, it is worthwhile to take stock of the enormous progress achieved since the 1998 crisis. Inflation, interest rates, the fiscal deficit and external debt levels are all down.

- Year-on-year inflation dropped from a high of 70 percent in February 2002 to a low of 4.5 percent earlier this year, rising moderately to 6.2 percent in September.
- External debt has been reduced by half to 60 percent of GDP.
- After receiving one of the largest IMF programs at the time as well as Paris Club relief, Indonesia graduated from IMF financing and Paris Club rescheduling. The IMF was much criticized and, admittedly, the IMF made some mistakes. But in fairness and in hindsight, the IMF's role in Indonesia should be viewed as one of great success.
- Almost the entire banking sector had been nationalized; now almost all intervened banks have been returned to the private sector.
- In 1997 there were almost 240 banks, with very little foreign presence. Now there are about 100 fewer banks, and foreign banks have now grown to about one third of the banking system's assets.
- Much private sector debt was in arrears, now a significant share has been rescheduled. IBRA recovered 163 trillion rupiah in assets by the time of its closure in February, a 28 percent recovery rate. These proceeds greatly helped pay for IDR 650 trillion in public bonds issued to recapitalize the banking system.
- Perhaps most importantly, after fits and starts, a disciplined economic policy team came into place that stayed "on message" and helped restore investor confidence. Ministers Boediono and Dorodjatun deserve much credit. I hope the new team will learn from their success.

Indonesian benefited from unusually benign environment

But Indonesia benefited from a favorable external environment. Keep in mind that post-crisis Indonesia gained from a buoyant international financial environment, a

tech boom that helped Indonesia's major trading partners, the lowest global interest rates in a generation (that also spurred investor appetite for riskier debt), and a booming Chinese economy (which increased demand for and prices of Indonesian commodities).

Fiscal restraint played a key roll in restoring macroeconomic stability. However, due to limited capital markets, past governments didn't have the capacity to run large deficits, particularly with a broken banking sector. While the government has now made good progress developing a liquid Treasury bond market, this gives future governments greater capacity to be less responsible.

The future environment may not be so forgiving and policy makers will need to focus on structural reforms to make the economy less vulnerable. It is clear that consumption-led GDP growth of 3 to 5 percent, compared to the 6 to 7 percent pre-crisis, is too low to reduce high unemployment and poverty. Peter Timmer of UC San Diego's School of International Relations and Pacific Studies (IRPS) and Bill Foerderer from USAID spoke earlier in more detail about poverty in Indonesia, but it is worth noting that 7.5 percent of the population still earns less than $1 a day. A much larger share is precariously one shock away from poverty – 110 million Indonesians make less than $2 per day. Furthermore, high debt levels still leave the government and private sector vulnerable to exchange rate and interest rate movements. I don't like using the term "second generation" reforms, but this is what is currently needed in Indonesia.

Fiscal and Monetary Policy

With capital stock depreciating, increasing investment is needed to secure sustained growth and employment. First, the authorities should build on the macroeconomic gains made since 1997 through further consolidation and by eliminating deficits, at least until debt falls to a level that will give the government capacity to run counter-cyclical fiscal policy without "spooking" investors. The biggest enemy is complacency, as Argentina showed. The IMF, Professor Carmen Reinhart at the University of Maryland, and others have done much recent research on debt intolerance. Their research has produced three key conclusions:

a. Safe levels of debt are country specific, but Indonesia's target level should be well below current levels.
b. Institutions matter: a country like Sweden can tolerate more debt because of its developed institutions.
c. Relying on growth alone is rarely sufficient to get out of the danger zone. Thus, highly indebted countries need large primary surpluses.

Also, studies show that fiscal contraction in highly-indebted countries is not necessarily contractionary, as it might be in a less indebted country. Moreover, Indonesia could partially offset the contractionary impact of further fiscal consolidation by making the composition of its spending more supportive of growth; reducing fuel subsidies (which mainly benefit higher income households and promote rent seeking); and devoting more resources to investments in health, education, and public infrastructure.

Bill Foerderer earlier spoke about the need to reduce the number of off-budget accounts. In 1996, the U.S. Congress passed legislation, which had Indonesia in mind but which targeted all countries, requiring the United States to ensure that all revenues that fund military activities are audited and reported to civilian authorities before approving credits or grants from the international financial institutions. By giving the Supreme Audit Agency authority to look into the finances of the military foundations, Indonesia made important progress, but much more could and should be done.

On monetary policy, Bank Indonesia should establish a much more transparent inflation-targeting regime. BI's current policy is too eclectic and it is unclear whether they are targeting base money, interest rates, the exchange rate or other indicators. As part of this, Indonesia should have less "fear of floating" – though Indonesia fares much better on this than the rest of Asia.

Improving the Business Climate

Others at this conference have already spoken at length about the micro efforts to

improve the business climate, but I would like to highlight that investors still complain of unfair treatment by local courts, corruption, lack of transparency and high costs to starting a business. It is impossible to overestimate how damaging high profile cases are. CEOs who read the Wall Street Journal have a hard time justifying investment in Indonesia to their boards.

Governance continues to be a big challenge and was a key reason that Indonesia was not selected to be eligible for the U.S. Millennium Challenge Account funds in 2004. In the previous seminar, Peter Timmer noted that Indonesia could be five years away from passing the control of corruption indicator. The corruption indicator is the only MCA indicator which the Board is singularly required to look at when assessing a country's prospect for achieving MCA-eligible status. I would like to point out that the MCC Board can use its discretion if it believes that a country is making significant progress and that the numbers used in the calculation may not reflect current conditions. In the first year of the MCA, for example, Bolivia was just at the median for the corruption criteria and not above as is required by the rule but was still nominated as an MCA candidate by the Board.

The top priority for the new administration will be to send strong signals that corruption, particularly in the judiciary, won't be tolerated. We understand reforming the judicial system takes time and it is much easier said than done given that it will require educating an entire corps of lawyers and judges. We also understand that judicial independence is a step forward. Furthermore, it is much easier to design IFI conditionality on macro indicators (such as reserves, deficit, and asset sales) than on judicial reform. But at the same time, allegations of judicial corruption need to be investigated and, if discovered, dealt with unambiguously. There are still far too many stories about judicial decisions being sold to the highest bidder. Recent passage of the bankruptcy law and the establishment of the Anti-Corruption Committee are welcome moves in this direction.

We've been talking today about the need to improve the investment environment and eliminate bureaucratic red tape, but I think it's important to look at the numbers to truly understand the situation in Indonesia. According to the World Bank, it's not pretty:

- It takes an average of 151 days to start a business in Indonesia, compared to a regional average of 52 days and 8 days in OECD countries.
- The cost of starting a business is 131 percent of per capita income, compared to 47 percent in the region and 8 percent in the OECD.
- Firing costs are 3 years of wages in Indonesia, compared to one year in the region and 40 weeks in the OECD.
- The cost of enforcing a debt contract is 127 percent of the contract, compared to 57 percent in the region and 11 percent in the OECD.
- Resolving bankruptcies takes 6 years on average with a recovery rate of about 11 percent, compared to 3 ½ years and 30 percent in the region and 1 ½ and 72 percent in the OECD.

Passage of an adequate investment law is also critical to allow full repatriation of profits, reduce restrictions on foreign investment and simplify taxes and duties.

Banking Sector Reform

Continued reform of the banking sector would also help increase the efficiency of financial intermediation, and therefore boost growth, while reducing the risk of another build up of contingent liabilities. Moreover, the "movie" of credit boom-fueled growth, which we are seeing in Indonesia and throughout Asia, is one we've seen many times before. The question is whether this time there will be a happy ending. And we won't know until growth slows.

While there have clearly been improvements in governance in the banking and corporate sectors, it is hard to know how much the quality of intermediation has improved, particularly credit assessment and risk management, though the fact that a significant part of credit growth is coming from state banks is cause for concern. We also won't really know whether creditors' rights are stronger until they're really needed. Developing a credit bureau system now should be a key priority.

State banks remain a key systemic risk. Their average ratio of compromised assets is four times the level of private banks. The government needs to get out of the

commercial banking sector. We had seen time and again in Indonesia and elsewhere that large state-owned commercial banks are fiscal time bombs.

Treasury Support

Treasury's Office of Technical Assistance has provided several advisors on a variety of issues to Indonesia and sent a tax advisor in February. Treasury works with the multilateral development banks as they coordinate their programs in Indonesia. Treasury is also working with Indonesia to combat money laundering activities and prevent the financing of terrorism. This is critical, most importantly for Indonesia which has suffered greatly from terrorist attacks. As we know, there are terrorist groups in Indonesia using the financial sector. While some progress has been made, getting off the FATF non-cooperative list will require demonstrable signs that enforcement is improving.

Treasury is also very supportive of Indonesia's White Paper, which provided inspiration for the Policy Monitoring Arrangement (PMA) proposed by the United States and being considered by the IMF Board of Directors. It is a new type of IMF engagement based on enhanced surveillance, not lending.

Conclusion

In conclusion, the new president has a strong mandate to embrace a broad reform agenda, strengthen substantially the investment climate, raise potential growth and create jobs. I hope that the new government will shift into high gear and make economic reform one of its top priorities for long-lasting benefits to the economy and to the Indonesian people.

Thank you. I look forward to a vigorous debate.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 26, 2004
JS-2062

Statement by Assistant Secretary Zarate on the Announcement by the Cuban Government to Prohibit U.S. Dollars from Circulating in Cuba

Juan Carlos Zarate, the U.S. Department of the Treasury's Assistant Secretary for Terrorist Financing and Financial Crime, made the following statement today in reaction to Fidel Castro's announcement that beginning November 8, U.S. dollars will no longer be circulated in Cuba:

"The announcement by the Castro government to pull U.S. dollars from circulation is an act of economic desperation and a clear signal that President Bush's strengthened policies towards Cuba have hurt the Castro regime. In typical Castro fashion, his solution to this problem is to implement a measure that will directly benefit and bring profit to his regime, while hurting the Cuban people.

"Because of the bankruptcy of Castro's policies and economics, the freedom-starved people of Cuba depend on remittances from their families living in the United States to survive. Castro will not only now attempt to pool these U.S. dollars for his own profit, but also is doing so by shaking down the Cuban people with a ten percent penalty for the currency exchange. As to be expected, when the regime is facing difficulty, Castro works to enrich himself on the backs of the Cuban people.

"The Bush Administration will continue to apply pressure to Castro and his cronies, working toward a day when the Cuban people are free to build the strong democracy and a thriving economy denied them by the Castro regime," said Zarate.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 26, 2004
JS-2063

Wayne A. Abernathy
Assistant Secretary of the Treasury for Financial Institutions
Before the North Carolina Bankers Association's
2004 Management Team Conference
Pinehurst, North Carolina

A Good Time to Be In the Banking Business

Thank you for inviting me to visit with you today. I always enjoy coming to North Carolina. I have so much family here. I believe that my Dad liked to say that everybody in Catawba County was either related to me or married to someone who was. That might have been a mild exaggeration, but I do know that there are a lot of Abernathies in North Carolina, and it always feels familiar and friendly to come here.

I take it as a duty, and as a privilege, on behalf of President Bush and Secretary Snow, to thank you, the bankers of North Carolina, for the important role that you have played and are continuing to play in promoting job creation and economic growth. Our economy is strong and growing, and that economic growth is steady and sustainable. For over a year now, the nation has been adding new jobs every single month, 1.9 million jobs and counting. Real after tax income is up by more than 10%. We are approaching a homeownership rate of nearly 70%. That means that this morning, something like 7 out of every 10 Americans woke up in a house that they own. That is a record high, never seen before in this nation for as long as we have been keeping homeownership records.

Let me share with you another important homeownership milestone. For the first time in our history, minority homeownership rates have broken the through the 50% mark. That means that over half of all minority families woke up this morning in a home that they own. We have never been able to say that before. And because that is important, it is important that we continue to make progress. That is why President Bush has set the goal of 5 million more minority home owners.

It is important because homeownership is important to the economy. It creates tremendous stability for the economy. But as important as homeownership is to the economy, it is even more important to people and to their communities. When you own your own house, that means something to you. It changes people. People who own their own homes are more likely to put down roots, to get involved in their communities, in their churches, in their schools. People who own their own homes are more likely to build financial strength for their future, for their family's future. Homeownership is an investment, but it is also an achievement, a source of satisfaction that you are reminded of every time you come home from work and open the door to your own house.

America is a society of owners. People come to America to own a piece of America, to own their homes, to own their futures. And as people own, they build. And as people build, America grows and prospers, economically yes, but even more importantly, America grows socially. America progresses. We become increasingly a society of communities, of communities owned by the people who live in them. My father grew up here in North Carolina, in a little town called China Grove, just south of Salisbury. He had a nice house, but his family did not own that house. The mill owned that house. But my father's children grew up in a house that my father owned. And my wife and I own our house. And I want my children to be able to own their homes.

Of course, that is where all of you come in. America's bankers help people build.

They help people save, invest. They help transform savings into financing, the financing that someone with a good idea needs. That man or woman with a good idea needs that financing in order to put that good idea to work, and in the process put the neighbors to work, creating new jobs with the financing that fuels that new idea.

You and I know that most of the new jobs created in America are created by small businesses. That small business is not likely to go to Wall Street to get the money it needs to expand and hire new people. That small business is likely to go to the local bank for a loan. Then, that small business is likely to call upon the local bank to help with managing the finances of the business and for many other financial services that are part of business today.

As we emerged out of the recent recession, America's banks were there with the resources to fund that growth. The latest statistics from the Federal Reserve Board show that bank lending to businesses, especially small and medium sized businesses, is strong. America's banks emerged from the recession in strong condition, ready with the money needed to put people to work. You have been doing that here in North Carolina, and your colleagues have been doing that all across the nation.

President Bush's idea is that we ought to keep that going. When we were in the midst of the recession, President Bush had a visionary idea. His idea was that we could help get the nation back on its feet if we let people keep more of their own money, so he sent to Congress a proposal that do just that. He proposed to lower taxes for all taxpayers. A lot of people were critical of that idea. Well, it was the right thing to do, Congress passed the President's plan, and every American taxpayer got a tax cut. To keep the recovery going, we believe the tax cuts should be made permanent.

A word on deficits: you do not have to raise taxes to cut the budget deficit. You can't tax your way to prosperity, and you can't eliminate the budget deficit without prosperity. The two ingredients to reducing the deficit are economic growth and controlling government spending. In the budget that President Bush submitted to Congress this year, he proposed that we apply both ingredients.

Let me give you a good example, one that I think bankers will increasingly find to be of great value, of real value to your customers, and so of real value to your banks. Healthcare costs too much in America. But we are unlikely to reduce the cost, or improve the quality, by increasing government control of healthcare or by raising taxes to pay for government controlled programs. What we can do, is empower more people with resources of their own to buy and control their own healthcare, to make their own decisions, to bring the consumers of healthcare back to being more in charge of their own healthcare spending.

That is the idea behind health savings accounts, or HSAs. Rather than someone else buying healthcare for you, you invest your healthcare funds in an HSA at your local bank and spend what you need from it. What you don't spend stays in your account. It's yours, and it builds up and grows from year to year. That is good for you, and it is good for banks as a growing source of funds that banks can then lend to finance new jobs and economic growth in their communities.

I also firmly believe that repeal of the death tax is vitally important for small businessmen and women who hope to be able to pass on the family business to their heirs. Some of the best banks in America are family owned banks that have been serving their hometowns for generations. Too many of these businesses get busted up or sold off in order to meet inheritance taxes, and that is why this Administration has worked to repeal that tax and is working to make that repeal permanent.

I was thinking of bringing with me today a new form for you to fill out. I figured though, that the arrival from Washington of a new form for bankers to fill out would be about as well received as the arrival of General Sherman's army. It would probably also be unnecessary, even though this was to be a happy form. This would be a form that would say, please list for me what you see as the three biggest problems for banking today, the three things that make it harder for you to meet the needs of your customers. I think that you would be happy to tell me, but the form would be unnecessary, because I think I know what your answer would be. I have spoken with a lot of bankers, from here in North Carolina and from other

parts of the nation. At the top, or very near the top, of your list would be the crushing burden of excess regulation.

I am with you on that. On a table in my office is this quote from President Bush, something that he said on March 23 of this year, right after the end of a cabinet meeting. President Bush gave us a standard by which to measure proposed new regulations. He said, "We need to make sure that the regulations at the federal, state and local level are absolutely necessary." That is a tough standard, and I think that a lot of regulations don't meet that standard. But that is the standard to use. And we apply that standard.

We applied that standard when people said we need a regulation that says that banks have to keep a physical copy of the identification documents used by a new customer opening an account. We asked, is it absolutely necessary to keep a physical copy? The answer was, no.

We applied that standard when some said that we should tell banks just what identification they should use and not use when a customer opens up an account. We asked, does Washington need to be telling banks in North Carolina what identification works best for them in their cities and towns? The answer was, no.

Of course, stopping unnecessary new regulation is only part of the job. We have joined with the leaders in Congress to find existing regulations that need updating, revision, or elimination.

And, occasionally, there may even be some new regulation that is helpful and that can actually in effect provide relief. One of the most significant examples of that kind of relief was legislation to strengthen uniform national standards for financial information, legislation signed in to law by President Bush last December. These national standards mean that customers take their credit history with them wherever they go. That means not only that a customer can do business in virtually any bank anywhere in the country without having to reestablish a credit record, but it means that every bank, large or small, can do business with any new customer, having the customer's complete financial record. Because of that, today more people have more access to more financial products, at lower costs, than ever before in our history and better than in any other country in the world.

That legislation, the Fair and Accurate Credit Transactions Act, or FACT Act, that your Senator Dole, as a member of the Senate Banking Committee, had an important hand in enacting, enables banks and law enforcement officials to use the national credit reporting system to fight identity theft and unmask fraudsters all over the nation. We stop identity theft when bankers know more about their customers--even a new customer--than the thieves do. And starting next year, because of that legislation called for by this Administration, customers will have expanded access to free credit reports and new rules to improve the accuracy of those reports. Banks and customers will benefit from that improved information.

And I think it would be a mistake for me not to mention today how important S Corporation tax treatment is for thousands of banks in America. Recent legislation signed by the President not only preserves the S Corporation option for many banks, it expands the option to many more. Under the tax laws, S Corporations are subject to individual income tax rules rather than corporate tax rules. That S Corporation tax treatment is particularly important to banks in small communities, a major source or financial relief for these banks. Similarly, raising individual income tax rates would directly affect the ability of these S Corp banks to serve their communities and pay their employees.

If time would allow, I would discuss the importance for banks of this Administration's efforts to reform bankruptcy laws, to curb abusive predatory lawsuits, and to strengthen the resilience of our financial system against natural disasters and terrorist attacks. I would also talk about our efforts to raise the financial literacy of Americans young and old, as well as our proposals to strengthen our deposit insurance system by merging its two separate funds and by allowing it to operate more like an insurance company.

And if I had a lot more time, I would discuss with you this Administration's proposals to make sure that our system of housing government sponsored enterprises enjoys the world-class level of care and attention and supervision that we need to make

sure that they are able to do their vital work today and in the future. We need a reliable system to make sure that the secondary market for mortgages remains as strong as it is today, if not stronger.

A lot of good work has been done. More remains to be done. Some of this work has been well begun and calls for perseverance to see it through.

I congratulate you on the important work you are doing to help meet the financial needs of your customers and your communities. Banking is a good business. You are helping a lot of other people with their good businesses. The economy is continuing to grow, we are getting more and more people into more and better jobs. Inflation is low, interest rates are low, productivity is high, economic growth is strong. In short, it's a good time to be in the banking business in America.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 26, 2004
js-2064

Under Secretary for International Affairs John B. Taylor
Remarks at the Cleveland Council on World Affairs
Case Western Reserve University
Cleveland, Ohio

Getting International Economic Development Right: Is Effective Foreign Assistance Possible?

Thanks for inviting me to be here at the Cleveland Council on World Affairs. We have heard a lot about foreign policy in recent weeks, but one part of our foreign policy that has received relatively little attention is the international economic part. So I appreciate the opportunity to discuss this important subject with you tonight.

A major goal of U.S. international economic policy is to increase economic growth and economic stability around the world. Measured by that goal, the international economic policy of the Bush Administration is working very well right now. The world economy is growing at the highest rate in thirty years. No major economy is in recession, and there are no major financial crises. Interest rates in both advanced and emerging market countries are at historically low levels. Inflation throughout the world has declined substantially and is not threatening the global expansion as it has so often in the past. The consensus is that the current global expansion will continue into next year and beyond. And importantly economic growth in emerging market and developing countries is picking up and is expected to reach 6-1/2 percent this year. The growth rate in Africa--at about 4-1/2 percent--this year is still a bit lower than the world average, but it is half again higher than in 2000 and is expected to rise to 5-1/2 percent next year.

But why should it matter to the American people that economic growth and stability are improving around the world? Why should we care about the foreign economic policy of the United States, and whether it is working or can be improved? There are at least three good reasons:

First, a growing world economy creates jobs and higher incomes for Americans through exports. Right here in Ohio, for example, exports support 451,000 jobs and have increased by 7.4 percent in 2003. After a decline that began back in 2000, job creation is picking up again in Ohio, with employment rising and unemployment declining in September. In the United States as a whole 1.9 million jobs have been created in the last 13 months. Another good sign is that Governor Taft's recent trade mission to Japan this year was 50 percent bigger than in 2000, a reflection on the fact that Japan is growing again after a lost decade of stagnation.

Second, economic growth in the very poor countries is the key to reducing poverty, and U.S. efforts to increase global growth are therefore part of a long American tradition of providing humanitarian support to improve the well being of people. The truth is that, despite significant progress, three billion people are still living in poverty around the world. Two billion lack adequate sanitation or have no electricity. And a billion do not have safe water to drink.

And these poverty measures bring me to the third reason to care about our foreign economic policy. Reducing poverty and creating jobs throughout the world is an essential part of the war on terror. As we clearly saw in Afghanistan under the Taliban, terrorism breeds in poor failing states.

It is for all these reasons--economic, humanitarian, security--that the Bush Administration has made international economic policy--and, in particular, the

economic development agenda for poor countries--a major part of its national security strategy.

In fact, under President Bush's leadership the Administration has developed a whole new economic development agenda, and the aim is to "get economic development right" and use foreign aid more effectively. The new development agenda channels more funds to countries that follow pro-growth policies. It insists that resource flows be tied to measurable results. It provides the poorest countries with increased levels of grants, as opposed to loans. And, by publication and greater transparency, it brings attention to objective indicators of pro-growth policies in developing economies.

President Bush has advocated this agenda at the World Bank and other multilateral development banks, and he has put it into practice with the creation of a new U.S. program; the Millennium Challenge Account (MCA). With three billion people still in poverty, it is clear that a new economic development agenda was needed, and it is this economic development agenda that I want to discuss with you tonight. I will focus my remarks on the design and implementation of the Millennium Challenge Account, though many of the same ideas apply to design and implementation of our reform agendas at the multilateral development banks.

Design

Good international economic policy reforms don't just "happen." You need to understand the problem you are trying to solve, come up with a proposed solution, and then get the solution implemented, which may require Congressional approval or international negotiation or both.

In the case of economic development, the problem was clear: too many people around the world were still in poverty because economic growth in many poor countries was too slow.

But why has economic growth been too slow? More and more evidence has been accumulating that there are significant impediments to growth in countries that need it most.

These impediments can be grouped into three areas.

Poor governance, including the lack of rule of law or enforceable contracts and the prevalence of corruption, raises the cost of doing business and creates disincentives for the private sector to create high-productivity jobs. For example, it costs $230 to ship cattle from the Sahel area in Burkina Faso to the coast of Ghana compared to only $80 to ship cattle all the way from Europe to the same point. According to International Livestock Research Institute, which I visited in Africa, "numerous checkpoints and bribes" factor into this large cost difference. World Bank research shows that countries that tackle corruption and improve their rule of law can increase their national incomes by as much as four times in the long term.

Inadequate education impedes the development of human capital. Workers without adequate education do not have the skills to take on high-productivity jobs or to adopt new technologies to increase the productivity of the jobs they do have. The workers in a computer services firm I saw in Ghana had good writing, reading, and computation skills and could thereby use the new computer technology to raise their productivity.

Restrictions on economic transactions prevent people from buying or selling goods or capital, or adopting new technologies. Lack of openness to international trade, monopolistic state marketing boards, and excessive regulations and red tape are all examples of restrictions that create disincentives for the private sector to invest and innovate so as to boost productivity. For example, until recently the government of Uganda operated a marketing board, which controlled most of the buying and selling in the Ugandan green coffee market. The marketing board held down the price paid to farmers for their coffee. After the government eliminated the marketing board, income to coffee farmers increased by nearly a factor of four--from 20 percent of the world price to 70 percent of the world price. So even with the drop in world coffee prices in recent years, many coffee farmers have begun to have higher standards of living.

But there are still many similar restrictions in other markets, in other countries, and between countries. Restrictions on imports into developed countries still reduce the opportunities to create jobs in the export sectors of developing countries. And there are also significant barriers to international trade in developing countries. In Uganda, for example, there is a 45 percent tariff on the import of specialty coffee bags needed for shipping more perishable roasted beans. This tariff is a factor in keeping Ugandan firms out of the international roasted coffee market.

For these reasons a key principle of the Bush Administration's approach to increasing growth and reducing poverty is to encourage and assist countries taking actions that remove these impediments to economic growth. Hence, the main principle underlying the MCA: focus economic development assistance on nations that are taking actions to remove impediments in these three areas; when President Bush first announced the Millennium Challenge Account in 2002, he stressed assisting countries that (1) govern justly, (2) invest in people, and (3) encourage economic freedom. Policies promoting these goals underpin successful growth, catalyze private investment, and increase the effectiveness of aid.

Another principle underlying the MCA is that it would establish a partnership in which the developing country, with full participation of its citizens, proposes its own plan. The point is to ask the qualifying countries: What are your development priorities? What are your constraints to growth and to productivity increases? This approach gives countries more ownership of their programs, which greatly increases the lasting support for the policy reforms that underlie the programs.

A third key principle of the MCA is to insist on measurable results in all projects. President Bush has called explicit measurable results throughout his administration, and it has been a theme we have stressed in all our development assistance programs. We must ensure that we measure whether or not we achieve our goals. What gets measured gets done. In this way not only can we determine whether our aid is effective but how we can better target assistance and correct our strategies if they don't work.

The MCA focuses on measuring results by making sure that every MCA contract includes quantitative objectives and clear expected outcomes. We will require a clear strategy for gathering baseline data and measuring progress toward stated results and assessing the reasons for success or failure. We will require disbursements to be conditioned on achieving satisfactory performance on the expected results. Evaluation of results will allow the MCA to incorporate lessons learned into ongoing and future operations. All measurement and evaluation reports, as well as the terms of each compact, will be made public in the US and in the host country.

This MCA is a revolutionary approach to economic development. It emphasizes providing assistance to countries that will use the aid most. We have also stressed this approach at the multilateral development banks. While foreign aid should be available for humanitarian assistance, these countries must take responsibility for increasing economic growth of they are to receive development assistance funds. Aid is not effective when governments are not responsible, not accountable to their people, or not committed to reforms that address governance, social capital, and responsible economic policies.

Implementation

Given these new MCA principles laid out by President Bush, economists and many other specialists throughout his administration--Treasury, State, USAID, CEA, OMB, USTR--went to work to make them work in practice. We focused on choosing indicators, operations, and measuring results.

The Indicators

We had to develop quantitative measures of good policy that would be used to assess countries' qualification for assistance. We stressed that the indicators had to be based on an objective and transparent assessment of their policy performance. By giving complete access to the information countries needed to qualify, the MCA would help give economic leaders the incentive and direction to develop good policies.

We consulted with people in the multilateral development banks, academic policy institutes, the private sector, and non-profit organizations. In the end several indicators were chosen in each of the three categories: 6 in governing justly, 4 in investing in people and 6 in encouraging economic freedom--a total of 16 indicators. We insisted that all this information be publicly available. The list of 16 indicators is shown on a few charts I brought for Ghana and Niger--scanning through these charts give you a good sense of the robustness of the indicators. To qualify countries should do better than the median on half of the indicators in all three categories, and perform above the median on control of corruption.

Even before funding has been distributed to the selected countries, the country performance on the individual indicators has had tremendous impacts. For example, one of the indicators is a measure of the days it takes to start a business in a country. This indicator is something concrete and tangible that countries were able to improve upon almost immediately. Benin, Bolivia, Madagascar, Mongolia, Nicaragua and Sri Lanka all improved their days to start a business indicator in the run up to the selection of countries for 2004.

The Corporation

Another essential implementation task was the creation of a Millennium Challenge Corporation (MCC) to carry out the operations of the MCA. The MCC was to be separate from cabinet agencies and have a degree of independence with a Board of Governors consisting of several cabinet members and outside representatives.

I am happy to say the MCC has now been authorized and funded by congress. You can go to their website www.mcc.gov to learn more and to look at the indicators. Sixteen countries have been chosen to participate in the first round.

The Measuring of Results

Making the measurable results concept work in practice is not easy and is perhaps the most challenging part of development assistance. You may be wondering what exactly we mean by measuring results? When the Department of Transportation in Ohio builds a highway, they should be able to answer whether it helps relieve traffic congestion or creates a more efficient way to get to an airport or urban center? How much will this highway cost to build or to maintain? How long will it take to be built?

The same should be true for international development assistance. I can give many examples from my own experience. Consider Afghanistan for example. The Asian Development Bank (ADB) provided a $15 million grant to Afghanistan to rehabilitate a large portion of the 100-kilometer Kandahar to Spin Boldak road, one of the country's major links with its neighbors. Despite its dilapidated condition, some 4,000 vehicles use the road daily, and the Spin-Boldak area is heavily congested. To get this done expeditiously we insisted on ambitious timelines with measurable results. To emphasize the importance I traveled to Manila the home of the ADB as well as to Afghanistan. Our executive director at the ADB played an essential role. The ADB wasn't just building a road; they were providing increased access to what was a major route between Afghanistan, its neighbors and their markets for goods and services. I am happy to say that the project has been completed. It has also reduced travel time from Spin Boldak to Kandahar to 1 ½ hours, down from 3-4 hours. It is not just about how much money went into building a road, it was also about how measuring results got the job done on time to make a difference for Afghanistan.

Another example is an education project in Kenya. Kenya faces the challenge of increasing attendance in schools and improving completion rates and the quality of the education. To accomplish the project goals the Ministry of Education disbursed money to the school districts to spend on textbooks, teacher's guides and training, financial management systems, hiring guidance counselors, and innovating new programs and activities for the students. A common practice at the schools, I witnessed, is to put on the blackboard the amounts of aid given to them by different donors. The blackboard tabulations serve as a tracking mechanism to see where the money had been spent, and what portions remained. This was an excellent example of results measurement, as I could see how much was spent on textbooks, how many textbooks were bought, and the students with the textbooks in hand. Not only is the process transparent, but it also encourages project ownership, as the

parents and school board are involved in deciding the types of text books to buy for the school. The communities are also able to track their schools progress towards meeting the overall goals of the project and to see whether the money spent on textbooks and training is actually producing the desired results.

Americans are by nature a generous people but they want to see results from their funds that are devoted to development, and their support for providing foreign assistance will only increase if those results are demonstrated in a convincing and straightforward manner. By measuring concrete results, we can focus our efforts on what really matters: helping poor people around the world escape from poverty and lead better lives.

The approach helps us cut through bureaucratic layers, ignore non-essentials, and concentrate on development problems that must be solved. It is a way to maximize the benefits of our funds.

Conclusion

I think the record demonstrates that we have made real progress in our international development assistance. I can say that this is truly an exciting time for those of us who have been working on international development issues in the Bush Administration. In 2001 President Bush announced his new grants and measurable results initiatives. Regarding the grants he explained that he aimed to not only "drop the debt" of poor countries but also to "stop the debt." In 2002 he announced the Millennium Challenge Account--which I have focused on here tonight--saying "the bottom line for us, and for our developing country partners, is how much development they are achieving." Now the grants and measurable results systems are operational at the World Bank and the MCA is up and running too. And this year the World Bank issued its annual development report and focused it entirely on economic growth as the key way to reduce poverty.

These international development reforms have the potential to provide profound and far-reaching benefits for recipient countries around the world. The policy reforms enacted in poor countries can provide opportunities to address key bottlenecks to development, to increase international trade and private capital inflow, and to ultimately help their citizens who will benefit from greater economic and political freedom.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 26, 2004
JS-2065

Air Transportation Stabilization Board's Statement on ATA Airlines Decision to File for Chapter 11 Protection

The Air Transportation Stabilization Board (ATSB) has been in contact with ATA Airlines over the past several weeks as the carrier prepared for today's filing. The ATSB understands the issues confronting ATA and will work with the airline through the bankruptcy process to ensure that the taxpayers' interests are protected. The proposed sale of assets will be closely scrutinized by the Board to mitigate any additional risks the transaction may pose to taxpayers.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 14, 2004
js-2066

Remarks of Assistant Secretary for Economic Policy Mark J. Warshawsky
The Ownership Society: Health Care and Retirement
before the John Locke Foundation of North Carolina

The Administration's efforts to reduce the tax burden on millions of American families and businesses is well known. I realize the John Locke Foundation shares our views on the important benefits of tax relief.

Today, however, I would like to focus on the challenges of health care and retirement reform. In particular, I will discuss health savings accounts (HSAs), social security personal savings accounts, and employer-sponsored pensions. I would like to put these reforms in an economic context and in the context of the President's vision of an "ownership society."

The President's concept of "ownership" embraces, at its very core, principles that the John Locke Foundation embodies: individual rights, limited government, free markets, and a free society. The President has said that "when people have solid assets to call their own, they gain independence and security and dignity, and more control over their future."

Health Care

Treasury Secretary John Snow has stated that "people often refer to health care as a social issue...it is also an economic issue of staggering proportions." Health care affects the financial security of households and collectively affects the economics of our country. As health care costs rise for individuals and families, so too do the overall costs of Medicare, Medicaid, and the employee compensation costs of businesses both large and small.

For these reasons, President Bush is committed to health care reform that provides all Americans with access to affordable, high-quality health care. He believes, however, that reform must address the systemic, root causes of our national health care problems rather than simply ameliorating its symptoms. To this end he has proposed a plan that increases the power of individuals by allowing them to participate in health savings accounts (HSAs). These HSAs became law last December with the enactment of the 2003 Medicare bill.

Health savings accounts permit anyone who has qualifying high deductible health insurance coverage to save tax-free dollars, earn tax-free interest, and withdraw these dollars tax-free to pay for an array of qualifying medical expenses. Perhaps most importantly, they are owned by the individual and not the employer. Secretary Snow has described them as super-charged IRAs that put patients back in charge of their health care. "You own it, you control it, you can leave it to your heirs," he's said.

HSAs help control costs in a number of ways and can have greater positive ramifications on the economy as a whole. Health Savings Accounts can help reduce overall health care costs as Americans become more aware of how much they spend on health care. Currently, insurance companies do put pressure on providers to reduce unit costs. However, the current system can make actual service costs elusive to the individual. Because they are handled almost entirely

through a third party administrator, we may know our copay or our deductible, but not necessarily our overall health costs.

The intuition that the HSA-high deductible health plan combination reduces costs is supported by rigorous research. The RAND Corporation conducted a "Health Insurance Experiment" from 1974 through 1982. The experiment measured both use and health outcomes in populations carefully selected to be representative of the U.S. population under the age of 65. Participants were enrolled in a range of insurance plans requiring different levels of copayment for medical care, from zero to 95 percent (with maximum dollar out-of-pocket expenditures set at $1,000). The researchers found that those who paid nothing used 40 percent more services than those required to pay a high deductible, but the effect on the health status of the average person was negligible.

HSAs help control costs because owners are allowed the freedom to shop around for the most economical health care services. Furthermore, as Americans become more aware of their personal health care costs they may take more ownership of their health. HSAs can push Americans to maintain better personal heath care – such as an individual who changes their diet to avoid heart disease in the future.

By taking this step to offer HSAs we are helping to transform health care in the United States. By making production of health care services more efficient, we lower the costs of health care. By containing skyrocketing increases in health care costs, we return to families more control over their budget, and we give our country a better chance at maintaining balanced budgets at the levels of state and local governments as well as the federal government.

Having discussed ways HSAs help control costs and stated their possible societal effects, let me briefly explain how HSAs work.

HSAs can be easily set up along with the purchase of a low-cost, high-deductible insurance policy to cover major medical expenses. They can be established through any bank, credit union, insurance company or financial services firm that is handling IRAs.

Pre-tax dollars (up to the amount of the major medical policy's annual deductible, with a cap of $2,600 for individuals and $5,150 for families) are acceptable contributions. Individuals over age 55 can make extra contributions to their accounts and still enjoy the same tax advantages.

Money from the HSA can be withdrawn tax-free when it is used to pay routine medical bills, such as doctor visits or for medicine. The money can also be saved in the account and carried over into the next year, earning interest tax-free. It is the choice of the account owners to consult with their doctors to determine which medical goods and services they need, without undue interference from an insurance company.

The President has also proposed allowing for the deduction of the cost of the premiums paid for a high deductible health plan, thus reducing the cost of these policies. This above-the-line deduction would be available whether deductions are itemized on tax returns. The cost is already excluded from taxable income if it is provided by an employer.

The high deductible health insurance policy of an HSA can protect against big medical expenses, such as hospital stays, and provide peace of mind by limiting total out-of-pocket medical costs in the event of serious illness.

It may be possible to save money with an HSA when compared to traditional health insurance plans. This is because if expenses are not covered under the high deductible health plan but are paid for from HSA funds they are, in essence, excludable from taxable income. Out-of-pocket expenses under a traditional health insurance plan are not deductible until they exceed 7.5 percent of an individual's adjusted gross income.

Employers can contribute to these accounts, and their contributions are tax-free.

HSAs are portable. You can keep your HSA when you change jobs.

You can pass HSAs to your spouse tax-free. (If you leave money to a beneficiary other than your spouse, it is taxed, but then is passed on.)

HSAs give consumers the opportunity to budget for their health expenses over many years.

Finally, to ensure that more Americans have access to these accounts President Bush proposes giving direct help to low-income Americans to purchase these accounts. The President proposes giving families a $1,000 direct, subsidized contribution along with a $2,000 refundable tax credit to help purchase a policy to cover major medical expenses. Individuals would receive a comparable $300 HSA contribution and $700 refundable tax credit.

To give you an idea of current HSA activity and accomplishments, the Treasury Department has fielded thousands of emails and phone calls related to HSAs and the number one page on the Treasury's Web site, in terms of "hits," is the HSA page.

While the specific number of accounts established to date is unknown, we know that many national and regional insurance companies, third-party health plan administrators and financial institutions are offering them. The federal government, additionally, will offer these as an option to its employees in 2005.

I've given you an overview of the specific mechanics and accomplishments of HSAs. Let's talk about the criticisms. After all, criticisms can be expected of any new plan.

First, there is concern that HSAs may bifurcate the risk pool by attracting the young, rich, and healthy while the sick, poor, and elderly are left paying higher premiums on their traditional plans. The evidence thus far indicates that the benefits outweigh any potential costs. Indeed, the most recent HSA statistics indicate that people consisting of a variety of ages, incomes, and insurance needs are successfully purchasing HSAs. According to one provider, 70 percent of HSA purchasers are over age 40. Twenty-nine percent of HSA purchasers have family incomes of less than $50,000. And 77 percent of purchasers are families with children.

Furthermore, this bifurcation could only occur where you have choices among health plan types. Today, too many people don't have any choices. In fact, according to one provider, 43 percent of HSA applicants did not have prior health insurance coverage. Small business owners, in particular, are a group looking for any cost effective option in health care plans. Currently, small business owners are oftentimes not able to offer their employees any health insurance at all. In this case, HSAs are an important option to provide low-cost health care and increase employee participation.

Additionally, critics have also claimed that these accounts may encourage people to skimp on needed medical benefits in order to build up their savings. The health plan allows for first dollar coverage for preventative care. It's in the regulations. More generally, HSAs allow for rational and reasonable spending trade-offs. Again, we can cite here the Health Insurance Experiment results.

The President's health care initiative, in addition to HSAs, includes a proposal to give $4 billion in grants to support state-run insurance pools to help low-income and high-risk Americans to get the most out of their health insurance tax credits. This should encourage states to create purchasing pools that will help reduce the cost of buying insurance and make it easier and faster to shop for coverage.

The President also proposes allowing local groups to band together through their national or regional organizations to purchase insurance. Through these Associated

Health Plans small business owners, civic groups and other community organizations will receive the economies of scale needed to negotiate lower-priced insurance coverage.

Additionally, we are determined to address the legal reform needed to curb frivolous and unnecessary lawsuits.

Social Security

Moving on to the topic of retirement income security, I am aware that any such discussion must feature Social Security. Economically speaking, the system as it is currently structured is unsustainable.

In 1950, there were 16 workers to support every one beneficiary of Social Security. Today, there are only 3.3 workers supporting every Social Security beneficiary. By the time our youngest workers – those just entering the workforce today – turn 65, there will only be 2 workers supporting each beneficiary.

As a result of these demographic changes, as well as increases in longevity, the current system will not be able to afford to pay the benefits scheduled for our children and grandchildren without enormous payroll tax increases. The President believes we can implement real reform to avoid these terrible outcomes.

He believes this untenable situation is fixable and that "Social Security is one of the greatest achievements of the American government, and one of the deepest commitments to the American people." Because of his deep commitment to the Social Security program, President Bush supports Social Security reform that increases the power of the individual, does not increase the tax burden, and provides economic opportunity for more Americans. The President has issued specific guiding principles for reforming Social Security.

One very important principle is that we must protect seniors by ensuring there will not be any reductions in near-retiree or retiree benefits. And we must not raise payroll taxes.

Another principle is that personal savings accounts (PSAs) should be made available in order for younger workers to build a nest egg for retirement that they own and control, and which they can pass on to their children and grandchildren.

Additionally, we must pursue the goal of a permanently sustainable system. As I previously mentioned, the President stresses the need to treat the systemic dysfunction within the Social Security system as opposed to treating only the symptoms.

To further demonstrate our concept of an "ownership society," I would like to focus on PSAs. President Bush talked about Social Security in his State of the Union speech. He remarked, "We should make the Social Security system a source of ownership for the American people."

PSAs provide individual control, ownership, and the opportunity for individuals to receive the benefits of long-term investing in private-sector markets. They are important because the retirement security of our current young and future workers depends on them. Personal accounts allow us to save now to help fund our retirement incomes. In theory, that could be done with reforms that save tax revenues in the Trust Fund. But such "saving" would almost certainly be undone by political pressures to increase government spending and, hence, produce larger deficits outside of the Social Security budget.

Social Security was designed in 1935 amid a very different economic environment. There was a perception that there were too many workers, so the government wanted to encourage retirement. There was concern that Americans were saving too much money and not spending enough. Today we are a society with entirely different needs. We need to continue to make use of the talents of our most

productive workers. We need to save more money and we have an abundance of sensible investment opportunities. This is why we have proposed PSAs. This is the only way to truly save for our retirement and give our children and grandchildren a fair deal.

Pensions

Social Security and personal savings are just two legs of a three-legged stool that supports retirees. The third leg of support is employer-sponsored pensions, both defined contribution and defined benefit types. There are well-known problems in these areas. Recent examples of corporate malfeasance by some executives have served as a dramatic example of why we must have pension protection measures. For some employees, a lifetime of savings was gone in an instant.

In response, the Administration proposed specific defined contribution protection measures. The following two have been signed into law: every worker gets 30 days advance notice before any blackout period--the time when they cannot sell, buy or borrow from their 401(k)s; and corporate executives must follow the same rules that every other employee follows during blackout periods.

We are addressing other reform principles as well. The President believes workers should be able to sell their company stock after holding it for three years so that no one's nest egg is tied up in the stock of a single company. Investors should have access to better information, including quarterly--not just yearly--reports on how their 401(k)s are performing. And, workers should have more access to professional investment advice so they can make more informed decisions about their savings.

We felt it was important to make positive changes in the pension system without burdening employees with investment restrictions. For this reason, we did not propose to place limits on the amount of an employee's account balance that can be invested in company stock.

Let me next discuss some defined benefit pension issues and provide reasons, through an example of airline pensions, of why reform is needed there. Before I do, let me briefly give you an overview of how the U.S. defined benefit system works. The ERISA of 1974 created the Pension Benefit Guaranty Corporation (PBGC). This body was created to encourage the growth of defined benefit pension plans, provide timely and uninterrupted payment of benefits, and keep pension insurance premiums paid by plan sponsors at a minimum. The Secretaries of Labor, Commerce and the Treasury sit on its board. The PBGC collects insurance premiums from employers that sponsor defined benefit pension plans and it pays monthly retirement benefits. Currently, PBGC insures the pensions of 44 million workers and retirees and pays benefits to about 930,000 people from failed plans.

Some basic facts about the defined benefit system and PBGC's financial health suggest that we need to be concerned about the current set of minimum required funding rules for plan sponsors and the long-term solvency of the system.

For example, PBGC's single employer plan program ended 2003 with a record deficit of $11.2 billion. This deficit is the result of two consecutive years of staggering net losses. The net loss for 2002 was $11.2 billion. The net loss for 2003 was $7.6 billion.

The PBGC deficit will be increasing significantly for this fiscal year as a result of problems with airline company pensions. The PBGC does have sufficient resources to pay benefits for a number of years. Nevertheless, the Administration knows we must act now to ensure the longer-term solvency of the pension insurance program.

Indeed, problems exist on a more fundamental level that are symptomatic of a broader and deeper set of problems. These issues can be distilled into two central themes--corporate responsibility and retirement security. Simply put, companies should be held accountable to make good on the pension promises they have made

to their workers and retirees. The consequences of not honoring these commitments are unacceptable--the retirement security of millions of current and future retirees is put at risk.

When underfunded pension plans terminate, three groups can lose: workers face the prospect of benefit reductions; other companies, including those that are healthy and have well funded plans, may face higher PBGC premiums; and, ultimately, taxpayers may be called upon by Congress to bail out the pension insurance fund, just as was the case more than a decade ago with the savings and loan bailout. This is the unfortunate result of a system that allows--and, one might even argue, sometimes encourages--companies to avoid paying for the promises they have made.

In July of 2003, we released the Administration's Proposal to Improve the Accuracy and Transparency of Pension Information. We designed this proposal to correct fundamental and structural flaws such as inadequate funding rules, a lack of transparency of funding disclosure and the moral hazards that result from a lack of checks and balances.

First, we proposed that pension liabilities must be accurately measured to ensure that pension plans are adequately funded to protect workers' and retirees' benefits and to ensure that minimum funding rules do not impose unnecessary financial burdens on plan sponsors. Liability estimates that are too low will lead to plan underfunding, potentially undermining benefit security. Pension plan liability estimates that are too high lead to higher than necessary minimum contributions, reducing the likelihood that sponsors will continue to operate defined benefit plans. We therefore proposed that a corporate bond yield curve be used to measure pension liabilities that accurately reflects the demographic composition of the plan participants.

Second, the transparency of information pertaining to pension plan funding needs to be increased.

We proposed requiring that each year sponsors disclose to participants the value of their defined benefit pension plan assets and liabilities measured on both a current on-going liability and a termination liability basis.

Third, the Administration proposed to restrict benefit increases for certain underfunded plans whose sponsors are financially troubled. When firms with below investment grade credit ratings increase pension benefit promises, the costs of these added benefits stand a good chance of being passed on to the pension insurance system, frustrating the benefit expectations of workers and retirees and penalizing employers who have adequately funded their plans.

When a plan sponsor files for bankruptcy the PBGC's guarantee limits would also be frozen.

We felt this was a constructive, forward looking set of proposals that would help ensure PBGC and plan solvency. Moreover, these proposals are consistent with the President's views on an ownership society. We have made clear that employers are responsible for ("they own") the pension promises that they make, and that, by using benefit restrictions and enhancing disclosure, employees take more ownership of their pensions, acting as watchdogs.

But clearly more is needed. At this point, I'd like to discuss some further fundamental principles that the Bush Administration believes should be part of any proposed, more comprehensive, future reforms.

First, we must protect the pensions of the 44 million workers and retirees covered by the PBGC.

Second, American companies must responsibly fund the pension benefits promised to workers.

Third, shifting the costs of pension obligations that companies have made to their workers to taxpayers is not acceptable.

The Administration, therefore, strongly believes that for any future reforms to be comprehensive they must include the following tenets:

They must create greater opportunity and incentive for employers to fund up in good times to ensure against economic shocks, and reduce the volatility of minimum required sponsor contributions.

Reforms must improve the PBGC's ability to deal with firms that fail to make contributions while in bankruptcy.

Finally, comprehensive reform must include a premium structure for the PBGC that meets its long-term revenue needs and reflects the risks that it covers.

To briefly conclude, I hope I have given you a better idea of the health care and retirement challenges facing us and that I have imparted an appropriate understanding of the President's vision of an "ownership society." Despite the challenges we face, I believe the policies I have mentioned today show that the Administration is committed to addressing these issues while preserving the very liberties to which John Locke was so brilliantly dedicated.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 14, 2004
js-2067

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Roundtable participants shared information about their own efforts to target adults with financial education. In response, Iannicola praised their ongoing commitment to help improve the financial knowledge of adults throughout Maine.

"You're never too old to benefit from financial education," said Iannicola. "Adults need financial knowledge to finance cars and homes, plan for retirement, care for relatives and pay for education. The strong grassroots network of non-profits and financial institutions here in Maine understand the need for adult financial education and are making good progress toward meeting it."

Iannicola also told the group about two new federal resources. The first is the www.mymoney Web site and the 1-888-mymoney toll-free hotline which provide access to federal financial education materials. The second resource is the Technical Assistance Center provided by the Treasury's Office of Financial Education, where organizations interested in financial education can receive input on program design, explore partnerships with other organizations and learn about best practices. Finally, Iannicola discussed Treasury's recent request for input on the development of a national strategy for financial education. The request for comment was published in the Federal Register and can be viewed at: http://a257.g.akamaitech.net/7/257/2422/06jun20041800/edocket.access.gpo.gov/2004/pdf/04-19527.pdf . The deadline for submissions is October 31, 2004.

Founded in 2002, the Institute for Financial Literacy is a non-profit organization focusing on helping improve people's understanding of their own personal finances. The organization works in partnership with other non-profit organizations across Maine to integrate financial literacy education into their current delivery of services.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

-30-

HSAs give consumers the opportunity to budget for their health expenses over many years.

Finally, to ensure that more Americans have access to these accounts President Bush proposes giving direct help to low-income Americans to purchase these accounts. The President proposes giving families a $1,000 direct, subsidized contribution along with a $2,000 refundable tax credit to help purchase a policy to cover major medical expenses. Individuals would receive a comparable $300 HSA contribution and $700 refundable tax credit.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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October 14, 2004
js-2067

Treasury Deputy Assistant Secretary Iannicola Leads Adult Financial Literacy Roundtable in Portland, Maine

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The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the http://www.treas.gov/press/releases/js2068.htm ncial Education visit:

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 27, 2004
js-2068

MEDIA ADVISORY: Secretary Snow to Visit Wilkes-Barre, PA on Thursday

Treasury Secretary John W. Snow will visit Wilkes-Barre, Pennsylvania on Thursday, October 28 to meet with local business leaders to discuss the President's efforts to strengthen the economy and create jobs.

"As a result of the President's economic leadership, we have overcome a recession and seen 13 straight months of job creation, totaling more than 1.9 million new U.S. jobs since August 2003," said Secretary Snow. "Pennsylvania has gained new jobs this year, and the President's tax reform policies have ensured that more than 4.6 million Pennsylvania taxpayers will have lower income tax bills in 2004."

During this trip to Pennsylvania, Secretary Snow also will discuss the Administration's efforts to control health care costs, reduce frivolous lawsuits and ensure that America has reliable and affordable sources of energy. "While the economy is on solid footing, we are not satisfied and there is still more work to be done. We need to continue to push for pro-growth policies that will create jobs and raise standards of living," Secretary Snow said.

Recent indicators show that President Bush's economic policies continue to move the economy forward. According to the Labor Department, the national unemployment rate was 5.4% in September – down 0.9 percentage point from a peak of 6.3% in June 2003 and the lowest rate since October 2001. At 5.4%, the unemployment rate is below the average of the 1970s, 1980s, and 1990s. Employment over the last year was up in 47 of the 50 states and the unemployment rate was down in all regions and in 46 of the 50 states.

The following events are open to the media, which must present media credentials or photo ID:

Thursday, October 28

Remarks to Greater Wilkes-Barre Chamber of Business and Industry
11:30 a.m. EDT
Westmoreland Club
59 South Franklin Street
Wilkes-Barre, PA
** Media should arrive by 11:00 a.m.
** There will be a brief media availability immediately following the event

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 27, 2004
js-2069

Secretary Snow's Remarks to Business Roundtable in Cedar Rapids, IA

Thank you for having me here today; it's great to be in Cedar Rapids. I appreciate the opportunity to talk with you about the economy both here, and all across this great nation of ours.

As small-business owners, each one of you is the embodiment of America's economic strength and dynamism, and you are also the embodiment of something less tangible but even more important: the American Dream.

The work you do is critical to the health of your local and state economies. In part thanks to that work, the Iowa economy has added 7,500 jobs to the payrolls so far this year, and 1,300 were added just last month, in September. That's good news for a lot of Iowa families... but I know it could be even better.

There are still people here who are looking for work, and we can't be satisfied until those folks have found jobs.

I am often asked where the jobs of the future will come from – a month from now, a decade from now. That's a pretty tough question to answer. No one can predict what the next great technology or industry will be, but I know it's safe to say that most of America's jobs will always come from people like you, from businesses like this one, and that by pursuing good economic policies, keeping our system open, flexible and dynamic, we will continue to create lots of good jobs in the future as our economic history shows so well.

Your businesses may be small. They may never show up on the New York Stock Exchange or the Fortune 500 list... but they create jobs for the people of your community, and that means everything. In fact, 2 out of 3 new jobs come from small businesses.

When our country goes through a rough patch, economically, small business has always been there to pull us out. You are part of the most powerful elements of our economy, which I see as a combination of: small-business owners and entrepreneurs, our outstanding workforce and the simple fact that we operate as a free market, which allows our economy to continuously adjust to changing circumstances. These elements add up to the most open, flexible, adaptive and resilient economy in the world today.

The President understands how important you are to our economy, and he's made you a priority in his economic policies.

He understands that, as small-business owners and operators, fairness and freedom are the two things that you really want from your government.

You seek the freedom to start up a new business venture, to run it and grow it, or – as the head of the National Federation of Independent Business told me recently – to close the door and go fishing for the afternoon if that's what you want to do!

You also want to be treated fairly, and you deserve nothing less.

In exchange for fairness and freedom, your unspoken promise to your country and our economy is: job creation and the fuel our economic engine runs on.

This is why the President reduced your taxes and has called on Capitol Hill to give you the option of Association Health Plans to reduce your health insurance costs. That's why he wants to make the tax code simpler, fairer, and more pro-growth. And it's why he wants to reduce that fear of baseless lawsuits that haunts you, costs you money, and ultimately acts as a tax on economic growth in this country.

With small business in the lead, our economy has come a long way.

When he took office, President Bush inherited an economy in steep decline. The stock market bubble had been pierced. We were then shocked by terrorist attacks and wounded by reprehensible behavior by corporate CEOs that hurt employees, investors and investor confidence.

Those key elements that I mentioned earlier – small business, outstanding workers, and a free-market system – proved to be the foundation, as they always have been, for our impressive economic recovery following this series of economic blows.

Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, over 1.9 million jobs have been created since last August – 13 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day at near record rates. People are finding new jobs in industries across the board. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children.

The President's tax relief is still working for the people of Iowa, with more than one million taxpayers saving money on their income tax bills in 2004 and more than 280,000 business taxpayers like you able to use your 2004 tax savings to invest in business equipment and employee compensation.

Nationwide, in 2004, 25 million small business owners will receive tax relief totaling about $75 billion.

At this point, it is critical to make that tax relief permanent, and to continue lifting the barriers to growth in other areas as well – by making health care more affordable, abusive lawsuits less common, and energy costs more reasonable.

Thank you so much for having me here today in this great American city, and thank you for the work you do to keep our economy strong.

-30-

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 28, 2004
JS-2070

The Honorable John W. Snow
Prepared Remarks: Wilkes-Barre Chamber of Business and Industry
Wilkes-Barre, PA
October 28, 2004

Thank you for having me here today; I appreciate the opportunity to talk with you about the economy both here, and all across this great nation of ours.

It's a pleasure to be visiting Wilkes-Barre and I'm delighted to be spending some time with this Camber of Commerce, which is having such a positive influence in your community.

As small-business owners, each one of you is the embodiment of America's economic strength and dynamism, and you are also the embodiment of something less tangible but even more important: the American Dream.

The work you do is critical to the health of your local and state economies. In part thanks to that work, the Pennsylvania economy has added 62,100 jobs to the payrolls so far this year – 4,600 in September. That's good news for a lot of Pennsylvania families... but I know it could be even better.

There are still people here who are looking for work, and we can't be satisfied until those folks have found jobs.

I am often asked where the jobs of the future will come from – a month from now, a decade from now. That's a pretty tough question to answer. No one can predict what the next great technology or industry will be, but I know it's safe to say that most of America's jobs will always come from people like you and that by pursuing good economic policies, keeping our system open, flexible and dynamic, we will continue to create lots of good jobs in the future as our economic history shows so well.

Your businesses may be small. They may never show up on the New York Stock Exchange or the Fortune 500 list... but they create jobs for the people of your community, and that means everything. In fact, 2 out of 3 new jobs come from small businesses.

When our country goes through a rough patch, economically, small business has always been there to pull us out. You are part of the most powerful elements of our economy, which I see as a combination of: small-business owners and entrepreneurs, our outstanding workforce and the simple fact that we operate as a free market, which allows our economy to continuously adjust to changing circumstances. These elements add up to the most open, flexible, adaptive and resilient economy in the world today.

The President understands how important you are to our economy, and he's made you a priority in his economic policies.

He understands that, as small-business owners and operators, fairness and freedom are the two things that you really want from your government.

You seek the freedom to start up a new business venture, to run it and grow it, or – as the head of the National Federation of Independent Business told me recently – to close the door and go fishing for the afternoon if that's what you want to do!

You also want to be treated fairly, and you deserve nothing less.

In exchange for fairness and freedom, your unspoken promise to your country and our economy is: job creation and the fuel our economic engine runs on.

This is why the President reduced your taxes and has called on Capitol Hill to give you the option of Association Health Plans to reduce your health insurance costs. That's why he wants to make the tax code simpler, fairer, and more pro-growth. And it's why he wants to reduce that fear of baseless lawsuits that haunts you, costs you money, and ultimately acts as a tax on economic growth in this country.

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Sound monetary policy from the Federal Reserve Board helped to stimulate our recovery as well. Lower interest rates encouraged investment, which is critical for economic recovery and growth.

Finally, President Bush's tax cuts gave our economy the oxygen it needed to right itself, and continue on a path of growth and job creation.

Letting people keep more of their own money, and spend it how they see fit, has helped put our nation on the right track. Nationwide, over 1.9 million jobs have been created since last August – 13 straight months of job growth. More people than ever before own their own homes, and new homes are being purchased every day at near record rates. People are finding new jobs in industries across the board. They have more money in their pockets and can better afford things from cars to appliances to shoes for their children.

The President's tax relief is still working for the people of Pennsylvania, with more than 4.6 million taxpayers saving money on their income tax bills in 2004 and more than 910,000 business taxpayers like you able to use your 2004 tax savings to invest in business equipment and employee compensation.

Nationwide, in 2004, 25 million small business owners will receive tax relief totaling about $75 billion.

At this point, it is critical to make that tax relief permanent, and to continue lifting the barriers to growth in other areas as well – by making health care more affordable, abusive lawsuits less common, and energy costs more reasonable.

Thank you so much for having me here today in your beautiful state, and thank you for the work you do to keep our economy strong.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 1, 2004
js-2071

Treasury Announces Market Financing Estimates

The Treasury Department announced today that it expects net borrowing of marketable debt to total $100 billion in the October – December 2004 quarter. The estimated cash balance on December 31 is $25 billion. In the last quarterly announcement on August 2, 2004, Treasury announced that it expected net borrowing to total $122 billion with an estimated end-of-quarter cash balance of $35 billion. Lower borrowing estimates are primarily due to lower outlays and a change in cash balance assumptions.

Treasury also announced that it expects net borrowing of marketable debt to total $147 billion in the January – March 2005 quarter. The estimated cash balance on March 31 is $10 billion.

During the July – September 2004 quarter, Treasury's net marketable borrowing totaled $89 billion and the cash balance on September 30 was $36 billion. On August 2, Treasury announced that it expected net marketable borrowing to total $89 billion with an estimated end-of-quarter cash balance of $35 billion.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, November 3.

REPORTS

- Market Financing Estimates

FINAL

TREASURY ANNOUNCES MARKET FINANCING ESTIMATES

Today, the Treasury Department announced net borrowing of marketable debt for the October - December 2004 and January – March 2005 quarters.

Quarter	Estimated Borrowing ($ billion)	Estimated End-of-Quarter Cash Balance ($ billion)
Oct-Dec 2004	$100	$25
Jan-Mar 2005	$147	$10

Since 1997, the average absolute forecast error in net market borrowing for the current quarter is $9 billion, of which $1 billion is attributable to differences in the end-of-quarter cash balance. Similarly, the average absolute forecast error for the following quarter is $44 billion, of which $10 billion is attributable to differences in the end-of-quarter cash balance.

The following tables reconcile the variation between forecasted and actual net marketable borrowing in the July - September 2004 quarter.

Quarter	Estimated Borrowing ($ billions)	Actual Borrowing ($ billions)	Estimated End-of-Quarter Cash Balance ($ billions)	Actual End-of-Quarter Cash Balance ($ billions)
Jul-Sep 2004	$89	$89	$35	$36

Categories	Chg from Aug Estimate
Receipts	+$2
Outlays	+1
Non-Marketable Activity	(1)
Change in Cash Balance	(1)

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 A.M. on Wednesday, November 3.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 3, 2004
js-2072

Report To The Secretary Of The Treasury From The Treasury Borrowing Advisory Committee Of The Bond Market Association

Dear Mr. Secretary:

Since the Committee's last meeting in August, GDP accelerated to a 3.7% pace in the third quarter and second quarter GDP growth has been revised higher to 3.3% from the originally reported 2.8%. Further, the latest economic readings point to a continuation of above trend growth during the fourth quarter. The ISM manufacturing report has moderated to 58.5 in September from the 20-year high reached in January, but it is still consistent with solid growth. The latest data also indicate that home sales remain near record high levels and will continue to do so given mortgage applications for purchasing new homes. Consumer spending grew just below 5% during the third quarter, despite declines in consumer confidence due to the uncertainty surrounding the outcome of the presidential election. The trend in payroll employment has moderated from this spring, with job gains averaging 112,000 per month in the third quarter. While this is weaker than payroll growth in the first two quarters of the year, it is stronger than a year ago when the US economy was still losing jobs. In addition, state level data indicates that job growth may have been temporarily suppressed in the third quarter by hurricanes and stands to rebound during the fourth quarter. The argument for a rebound is supported by jobless claims that have begun to decline again after increasing in July through September largely due to hurricanes. Oil prices rose significantly over the inter-meeting period. This has led to the potential for moderating growth.

Core inflation moderated in the third quarter after a significant acceleration during the second quarter. The core CPI rose an annualized 1.5% during the third quarter, following a 3.0% annualized increase in the second quarter. However, used cars, clothing, and lodging away from home accounted for the bulk of the second quarter acceleration. The core PCE deflator increased at only a 0.7% annual rate in Q3, bringing the year-over-year change in September to 1.5%, while the year-over-year change rose to 2.0% for the core CPI. Nonetheless, anecdotal information, the latest monthly data and the decline in the dollar imply significant increases in core inflation ahead. The persistence of higher energy and other raw material prices appear to have numerous industries in a position to try to pass through these higher costs in order to support earnings. Also, the dollar has declined against the euro, which has led a trade weighted dollar to depreciate over 3% from a year ago, suggesting a pick-up in import prices excluding food and energy.

After rising before the first FOMC tightening in June, long-term Treasury yields have declined over 50 basis points since the tightening cycle began. As the FOMC increased its short-term target by 75 basis points, a substantial flattening of the yield curve has ensued, even compared to previous tightening cycles of 1994 and 1999. However, the absolute spread between long- and short-term interest rates remains at historically high levels. Over the third quarter, 10-year yields fell by almost 50 basis points and the 2s/10s curve has flattened almost 50 basis points. Yields are currently 40 basis points higher than the lows observed in mid-March and the yield curve is 30 basis points flatter than its steepest levels of the quarter. The market is currently pricing in over a 90% probability that the Fed will raise rates by 25bp at the November FOMC meeting and is pricing in a funds rate of 2.00% by year end and roughly 2.50% by mid-2005.

Third quarter reported operating earnings appear to be showing signs of moderation after a strong acceleration over the past six quarters. Operating earnings have averaged approximately 6% growth on a quarter-to-quarter basis ending in the second quarter. Similarly, earnings have grown more than 20% on a year-to-year basis during this six-quarter period. Third quarter operating earnings likely fell slightly more than 2% from the second quarter, but are approximately 15% higher than the same quarter last year. As of Friday, October 29, 2004, 80% of the S&P 500 has reported earnings; approximately 77% have met or beaten expectations while 23% have failed to meet expectations. Slower earnings in financials, specifically insurance and brokerages and a temporary moderation of earnings in the consumer discretionary sector (especially automotive manufacturers) are largely behind the slowdown in earnings growth. Although a pick-up in economic activity supports stronger than expected earnings in the fourth quarter, the height of earnings acceleration appears to be behind us. Equity markets have been mixed year-to-date, although the most recent three months have experienced positive returns: the S&P 500 Index has risen approximately 1.6% year-to-date (+2.7% 3-months) and the NASDAQ composite has fallen approximately 1.4% year-to-date (+5.0% 3-months).

Against this economic and financial backdrop, the members of the Committee began consideration of debt management questions included in the Quarterly Charge. Following their standard format, Treasury presented a chart package that will be released as part of the Treasury refunding announcement.

The charge to the Committee was composed of two questions. In the first question, the Committee was presented with charts illustrating four overarching themes. They were: current financing needs, a description of the debt portfolio, the uncertainty of issuance and borrowing costs, and Treasury's position in the global and domestic capital markets. Members were asked to comment on these themes and indicate if they thought they accurately illustrate the major issues the Treasury faces.

The first section the Committee considered was Treasury's current financing. Treasury presented slides showing financing requirements, cash balances and quarterly net market borrowing from both marketable and non-marketable securities. They showed a slide illustrating the drivers of financing needs as well as slides which showed projected net marketable borrowing composition between coupon and bill issuance. These slides comprehensively portray all the salient issues to be considered and the Committee did not recommend further additions or changes.

The second section contained the description of the debt portfolio. Treasury presented slides which effectively depict debt maturity measures and the percentage of nominal debt maturing over the next three years. They also presented a chart of projected net market borrowing. Financing needs appear to be manageable. The distribution of marketable debt outstanding is balanced, and the percentage of debt maturing over the next 12-36 months is well within ranges observed over the past 20 years. The Committee did not suggest any further additions to this section.

The third section of the slide presentation, demonstrated the inherent uncertainty that Treasury faces in their issuance needs and borrowing costs. The Committee concurred that there is significant potential for forecast error in their projections. The group recommended that they continue to research ways to improve the large average forecast error. Despite the high possibility of variance as a result from forecast, the Committee was comfortable that the current issuance profile could easily facilitate higher or lower deficits.

The fourth and final section considered Treasury's sizeable role in both global and domestic debt markets. One slide presented showed foreign holdings as a percentage of total privately held debt and its current historically high level. Another showed the past and current dealer positions in treasuries. Interestingly, this slide showed both the growing acceptance by the investor base for TIPS as well as the lack of distinction of liquidity between TIPS and nominal securities by the primary dealer community. The willingness to sell short TIPS reflects increased end user demand and greater dealer confidence in accessing liquidity.

Many members commented on the improved quality of Treasury's portrayal of the thematic issues it faces. The Committee felt that Treasury has substantially

improved its ability to communicate with investors through the slide presentations it has implemented in recent years. Members offered suggestions which they felt would further enhance Treasury's communication aims. A member urged Treasury to include disclaimers regarding forecasts and projections in their chart packets. Members felt that Treasury should include descriptive narrative to accompany some of the slides, thereby enhancing their view. It was also suggested by yet another member that Treasury should include a slide showing the duration of its debt which would compliment the slide which showed the maturity of its debt.

The second question of the charge related to financing recommendations for the quarter. The Committee addressed the question of the composition of Treasury notes to refund approximately $48 billion of privately held notes and bonds maturing on November 15th, 2004 (including $3.1 billion of the 10-3/8% 11/15/04-09 that was called on 7/15/04). The Committee further considered the composition of Treasury marketable financing for the remainder of the October-December quarter, including cash management bills if necessary. Finally, the Committee considered composition of marketable financing for the January-March quarter to refund $48 billion of privately held notes and bonds maturing on November 15th, 200. The Committee recommended a $22 billion 3-year note due 11/15/07, a $15 billion 5-year not due 11/15/09, and a $14 billion 10-year note due 11/15/14. For the remainder of the quarter, the Committee recommended a $24 billion 2-year note issued in November and a $24 billion 2-year note issued in December, a $15 billion 5-year note issued in December and a $9 billion re-opening of the 10-year note in December. The Committee also recommended a $25 billion 12-day cash management bill issued 12/3/04 and maturing on 12/15/04. For the January-March quarter, the Committee recommended financing as contained in the attached tables. Relevant features include three $24 billion 2-year notes, a $22 billion 3-year note, three $15 billion 5-year notes, a $13 billion 10-year note in February followed by a $8 billion re-opening of that 10-year note in March. The Committee further recommended a $10-billion 10-year TIPS for issuance in January as well as a $6 billion re-opening of the 1/31/25 20-year TIPS in January.

Respectfully submitted,

Mark B. Werner
Chairman

Ian Banwell
Vice Chairman

Attachments (2)

REPORTS

- Q1 Tables
- Q4 Tables

US TREASURY FINANCING SCHEDULE FOR 1st QUARTER 2005
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY
4-WEEK AND 3&6 MONTH BILLS	12/30	1/3	1/6	15.00	20.00	17.00	52.00	0.00
	1/6	1/10	1/13	12.00	20.00	18.00	51.00	-1.00
	1/13	1/18	1/20	10.00	20.00	18.00	52.00	-4.00
	1/20	1/24	1/27	12.00	20.00	19.00	51.00	0.00
	1/27	1/31	2/3	16.00	20.00	19.00	52.00	3.00
	2/3	2/7	2/10	19.00	20.00	20.00	49.00	10.00
	2/10	2/14	2/17	19.00	20.00	20.00	47.00	12.00
	2/17	2/22	2/24	19.00	20.00	20.00	49.00	10.00
	2/24	2/28	3/3	23.00	20.00	20.00	52.00	11.00
	3/3	3/7	3/10	23.00	20.00	20.00	55.00	8.00
	3/10	3/14	3/17	21.00	20.00	20.00	53.00	8.00
	3/17	3/21	3/24	21.00	20.00	18.00	52.00	7.00
	3/24	3/28	3/31	18.00	20.00	18.00	57.00	-1.00
					735.00		672.00	**63.00**
CASH MANAGEMENT BILLS								
10-Day Bill	1/3	1/4	1/5		15.00		15.00	0.00
	Matures 1/15							
11-Day Bill	3/2	3/3	3/4		20.00		20.00	0.00
	Matures 3/15							
COUPONS						CHANGE IN SIZE		
5-Year Note	1/6	1/12	1/18		15.00			15.00
10-Year TIPS	1/6	1/13	1/18		10.00	1.00		10.00
20-Year TIPS (R)	1/20	1/25	1/31		6.00	-5.00		6.00
2-Year Note	1/24	1/26	1/31		24.00		25.94	-1.94
3-Year Note	2/2	2/8	2/15		22.00			22.00
5-Year Note	2/2	2/9	2/15		15.00			15.00
10-Year Note	2/2	2/10	2/15		13.00	-1.00	11.59	1.41
2-Year Note	2/18	2/23	2/28		24.00		26.99	-2.99
5-Year Note	3/3	3/9	3/15		15.00			15.00
10-Year Note (R)	3/3	3/10	3/15		8.00	-1.00		8.00
2-Year Note	3/28	3/30	3/31		24.00		27.00	-3.00
					176.00		91.51	**84.49**

R = Reopening
A = Announced

Treasury announced a Q1 borrowing need of $147 billion on Nov 1st

NET CASH RAISED THIS QUARTER: 147.49

US TREASURY FINANCING SCHEDULE FOR 4th QUARTER 2004
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY
4-WEEK AND 3&6 MONTH BILLS	9/30	10/4	10/7	15.00	19.00	17.00	53.51	-2.51
	10/7	10/12	10/14	15.00	19.00	17.00	42.77	8.23
	10/14	10/18	10/21	10.00	20.00	18.00	42.38	5.62
	10/21	10/25	10/28	20.00	21.00	19.00	50.92	9.08
	10/28	11/1	11/4	20.00	21.00	19.00	47.91	12.09
	11/4	11/8	11/12	15.00	20.00	18.00	49.00	4.00
	11/12	11/15	11/18	19.00	20.00	17.00	44.00	12.00
	11/18	11/22	11/26	21.00	20.00	17.00	54.00	4.00
	11/26	11/29	12/2	19.00	19.00	17.00	54.00	1.00
	12/2	12/6	12/9	17.00	19.00	17.00	49.00	4.00
	12/9	12/13	12/16	16.00	18.00	16.00	52.00	-2.00
	12/16	12/20	12/23	16.00	17.00	16.00	54.00	-5.00
	12/23	12/27	12/30	14.00	17.00	16.00	53.00	-6.00
					691.00		646.50	**44.50**
CASH MANAGEMENT BILLS								
14-Day Bill	9/28 Matures 10/15	9/29	10/1		14.00		14.00	0.00
2-Day Bill	10/7 Matures 10/15	10/12	10/13		8.00		8.00	0.00
12-Day Bill	12/1 Matures 12/15	12/2	12/3		25.00		25.00	0.00
COUPONS						CHANGE IN SIZE		
5-Year Note	10/4	10/6	10/15		15.00			15.00
10-Year TIPS (R)	10/4	10/7	10/15		9.00	-1.00		9.00
5-Year TIPS	10/21	10/26	10/29		12.00	12.00		12.00
2-Year Note	10/25	10/27	11/1		24.00		26.88	-2.88
3-Year Note	11/3	11/8	11/15		22.00			22.00
5-Year Note	11/3	11/9	11/15		15.00		27.77	-12.77
10-Year Note	11/3	11/10	11/15		14.00		20.24	-6.24
2-Year Note	11/18	11/23	11/30		24.00		26.99	-2.99
5-Year Note	12/2	12/8	12/15		15.00			15.00
10-Year Note (R)	12/2	12/9	12/15		9.00			9.00
2-Year Note	12/27	12/29	12/31		24.00		26.10	-2.10
					183.00		127.98	**55.02**

R = Reopening
A = Announced

Treasury announced a Q4 borrowing need of $100 billion on Nov 1st

NET CASH RAISED THIS QUARTER: 99.51

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 3, 2004
JS-2073

Acting Assistant Secretary for Financial Markets Timothy S. Bitsberger November 2004 Quarterly Refunding Statement

We are offering $51.0 billion of notes to refund approximately $48.0 billion of privately held securities and Government account holdings maturing or called on November 15, raising approximately $3.0 billion. The securities are:

- A new 3-year note in the amount of $22 billion, maturing November 15, 2007;
- A new 5-year note in the amount of $15 billion, maturing November 15, 2009;
- A new 10-year note in the amount of $14 billion, maturing November 15, 2014.

These securities will be auctioned on a yield basis at 1:00 PM Eastern time on Monday, November 8, Tuesday, November 9, and Wednesday, November 10, respectively. All of these auctions will settle on Monday, November 15. The balance of our financing requirements will be met with weekly bills, monthly 2-year and 5-year notes, the December 10-year note reopening, and the January 10-year and 20-year TIPS. Treasury is also likely to issue cash management bills in early December and January.

Debt Limit
Due to debt limit constraints, we currently do not have the capacity to settle our 4-week bill auction scheduled to settle on November 18. Treasury market participants should be prepared for a delay in the formal auction announcement for the 4-week bill and in the auction itself if Congress does not enact legislation to raise the debt limit. All auctions settling before November 18 will be settled as scheduled.

Early Release of CUSIPS
Beginning on December 17, 2004 Treasury will release the CUSIPS for all securities scheduled for the following week. The early release of CUSIPS will improve efficiency of Treasury market transactions at the time of auction announcements. CUSIPS for scheduled auctions will be announced every Friday at 10:30 a.m. and posted on the Bureau of Public Debt's website at the following URL: wwws.publicdebt.treas.gov/AI/OFAnnce.

Other Policy Issues

Data Review
Treasury is assessing the data we currently publish on Treasury auctions and holdings. We seek suggestions on what additional data we should make public and what data that we currently publish is not useful. A list of the data under review can be found in the primary dealer meeting agenda released on October 22, at the following link: www.treas.gov/offices/domestic-finance/debt-management/dealer-agenda/2004-q4.pdf

TIPS STRIPS proposal
Treasury has considered views on the proposal to make the STRIPS principal of TIPS further strippable into a nominal zero bond and a pure inflation security. We accept the view expressed by some market participants that further stripping of

TIPS, while helpful to the development of inflation derivative markets, may reduce liquidity in the TIPS market. Given this concern, we are setting aside this proposal.

The next quarterly refunding announcement will take place on Wednesday, February 2, 2005. Please send comments and suggestions on these subjects or others relating to debt management to debt.management@do.treas.gov.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 3, 2004
JS-2074

Minutes Of The Meeting Of The Treasury Borrowing Advisory Committee Of The Bond Market Association November 2, 2004

The Committee convened in closed session at the Hay-Adams Hotel at 11:54 a.m. All members of the Committee were present. Acting Assistant Secretary for Financial Markets Timothy Bitsberger welcomed the Committee and gave them the charge.

The Committee first addressed the question in the Committee charge (attached) concerning the revised version of the chart package that Treasury releases on Monday during the week of the refunding. The members were asked for their views on the proposed changes and suggestions for further improvements. The Committee was specifically asked by Mr. Bitsberger to comment on the suitability of the charts for preparing the Committee for meetings as opposed to implications that could be derived from the charts. As a preface to the Committee discussion on this issue, Mr. Bitsberger presented the revised package. The charts were divided into four sections.

The first section of the chart package included eight charts and highlighted current financing, with a discussion of short-term and medium-term borrowing requirements, cash balance estimates, and the issuance schedule. The charts indicated that expected net-marketable borrowing will be $100B this quarter and $147B next quarter, and current coupons are adequate to meet expected borrowing assuming a 5% projected GDP growth rate, revenues rising to historical averages, and expenditures falling below historical averages.

Committee members suggested that the daily cash balance should include averages and volatility measures and that the criteria for changes in issuance sizes should be spelled out in the hypothetical issuance charts.

The second section of seven charts dealt with the Treasury debt portfolio, highlighting the maturity, issuance, and debt outstanding profile. The charts in this section showed that average maturity of issuance stabilizes, averaging 2.8 years and the maturity of outstanding issues drops from 4.6 years to 4 years over the next 5 years, while the composition of nominal issuance remains within historical ranges. In addition, the charts indicated that the current issuance patterns would lead to a growing proportion of 5-year notes and TIPS in the portfolio. Finally, the percent of debt that matures within 3 years is rojected to remain stable over the next 4 years, at roughly 60%.

Committee members had several comments on the second section. One Committee member thought that it would be very helpful to add an effective duration chart to the maturity section. This would help to capture the effects of TIPS and callable securities on the maturity profile. Several members thought that Treasury should include more forceful disclaimers on several of the charts in this section, particularly ones that contained portfolio projections. There was a concern that the projected data presented in these charts might be viewed by some observers as targets, when in reality the projections are designed to illustrate various outcomes if certain financing patterns are employed by the Treasury over several years.

Another committee member asked if the "Treasury Annual Net Market Borrowing" chart could break out the maturities of securities in finer tranches, for example showing both 5 year and 10 year securities separately, as opposed to aggregating the securities in broad maturity buckets. Another Committee member questioned the usefulness of "The Distribution of Marketable Debt Outstanding" bar chart,

suggesting that it showed rollover risk which was already presented earlier in a line chart with the same title.

The third section of contained two charts and highlighted the uncertainty Treasury faces in its financing operations; it included a discussion of stresses to issuance and borrowing costs. This section indicated that deficit forecast errors for FY 2004 were comparable to previous forecast errors and that the current issuance pattern has Treasury equally well positioned for higher or lower deficits.

One committee member suggested that the "Average Absolute Federal Budget Forecast Error" chart may raise questions by the public unless the variance around the error was included. Other committee members agreed that adding variance to the chart would be helpful.

The fourth section contained a series of six charts on capital markets, highlighting Treasury's share of global and domestic markets and Treasury's liquidity. The capital markets section indicated that foreign holdings of Treasury debt are at historical highs. Also, Treasuries represent a small proportion of the domestic debt stock. And finally that debt outstanding as a percent of GDP compares favorably to that of many other large economies.

The Committee felt that better labeling was needed on the "U.S. Debt compared to G-7" chart to indicate that the average is unweighted. A small discussion ensued with Committee members spilt on whether a weighted average should be included as well. Some members argued that a weighted average would skew the data dramatically.

On the chart titled "Treasury Bills as a Percentage of the Money Market", the Committee felt that short coupons should be included in the denominator of the calculations underlying the chart.

The Committee's then provided some broader comments on the package. They indicated that over the last several years there has been dramatic improvement in the data and the charts that Treasury provides. One member suggested that some narrative should be included; that the chart package should be put into a presentation that "told a story" because there were some points in the package where first time users of the charts might miss particular points. Others felt that the bullet charts in this modified package provide highlights and were sufficient. Another member suggested that perhaps more descriptive titles on some of the charts – with conclusions -- were all that was needed. One member cautioned about being too narrative.

In other broad comments, a member suggested that charts dealing with lo.ıger-term financing issues should be included. A discussion followed about the usefulness of long-term numbers, given the accuracy of projections beyond 2 or 3 years. Others suggested that more charts illustrating the "demand side" be included, such as primary dealer awards, auction histories and tails.

The Committee then discussed its final borrowing recommendations for the November refunding and the remaining financing for this quarter as well as the January-March quarter. Those charts are attached.

The meeting adjourned at 1:00 p.m.

The Committee reconvened at the Hay-Adams Hotel at 2:45 p.m. All members of the Committee, were present. The Chairman presented the Committee report to Acting Assistant Secretary for Financial Markets, Tim Bitsberger. A brief discussion followed the Chairman's presentation but did not raise significant questions regarding the report's content.

The meeting adjourned at 3:00 p.m.

Jeff Huther
Director
Office of Debt Management

November 2, 2004

Certified by:

Mark B. Werner, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
November 2, 2004

Treasury Borrowing Advisory Committee Quarterly Meeting Committee Charge – November 2, 2004

Quarterly Refunding Chart Package
We will show you a revised version of the chart package we release on Monday of the week of the refunding. We would like the Committee's view on the proposed changes and suggestions for further improvements.

Financing this Quarter
We would like the Committee's advice on the following:

- The composition of Treasury notes to refund approximately $48 billion of privately held notes and bonds maturing on November 15 (this includes $3.1 billion of the 10 3/8% 11/15/04-09 that was called on 7/15/04).
- The composition of Treasury marketable financing for the remainder of the October-December quarter, including cash management bills if necessary.
- The composition of Treasury marketable financing for the January-March quarter.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 29, 2004
JS-2076

Statement of Treasury Secretary John W. Snow
Third Quarter GDP

We are encouraged by the ongoing strong performance of the American economy, with a non-inflationary growth rate that is above the average for the past ten years. GDP continues to grow above the average of the 1970s, 80s and 90s, while the unemployment rate remains below the average for those decades.

Our economy grows when it is given the right stimulus – in this case, tax relief and good monetary policy. That stimulus, combined with the strength of our small-business sector and outstanding workforce, has led to a growing economy that is producing jobs in all sectors across the board.

There is still more that can be done to encourage growth and create jobs, and we must continue to implement President Bush's pro-growth policy agenda to achieve those goals.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 1, 2004
js-2077

G-7 Statement on Renewal of the Action Plan for Agenda for Growth

One year ago, at the September 2003 Dubai G-7 meeting, we adopted the ***Agenda for Growth*** initiative to help promote structural reforms needed to increase flexibility, raise productivity and bolster job creation. This initiative has proven fruitful and become a regular and established part of our surveillance discussions, along with our focus on monetary and fiscal policies. In view of the successful experience over the past year, we agreed to make the Agenda for Growth a regular feature of our work.

What Has Been Achieved in the First Year?

At the Dubai G-7 meeting, we underscored the importance of focusing on the implementation of structural reforms to strengthen potential growth in the future. To this end, we agreed on the Agenda for Growth initiative and to pursue additional pro-growth policies. We note the following progress has been made in our discussions since Dubai:

- Most significantly, since the Dubai meeting, the global expansion has been sustained, and our countries have taken specific actions to move the long-term growth process along, for instance through tax reforms, labor market reforms, reduced regulatory burdens, reforms to ensure the long-run viability of health and pension systems and improving financial sectors.
- In Boca Raton in February 2004, each of our countries discussed its approach to structural reform, and we issued a progress report on accomplishments since the Dubai meeting and upcoming reform plans.
- In April 2004, we centered our discussion on tax and labor market reforms.
- In May 2004 at the pre-Summit meeting of Finance Ministers, we discussed the sustainability of health care spending in the major countries and ideas and policies for reform of such spending.
- Today, we discussed the next steps to be taken in the Agenda for Growth and exchanged views about how to raise productivity.

Next Steps

The G-7 Agenda for Growth has become a valuable part of our economic work and discussions. It has highlighted that each one of our countries has accomplished much. But there is still much work to be done. Thus, it is important to build on the progress made and embed the Agenda for Growth on a permanent basis into our work.

Against this background:

- We will focus on a few specific structural reform topics at each Ministerial meeting, and we will prepare an Agenda for Growth progress report once a year.
- We ask our Deputies to prepare for these discussions in much the same way that they prepare for our fiscal and monetary surveillance.
- We call on the OECD's Working Party 3 to continue to deepen its work on the cross border and current account impacts of changes in structural policy.
- We ask our Deputies to review the more technical aspects of each topic to lay the groundwork for Ministerial discussion.

Launching the Agenda for Growth Initiative
September 2003, Dubai

We, the G7 Finance Ministers and Central Bank Governors, have today agreed on an Agenda for Growth. This Agenda follows the successful cooperative approach of our two recent G7 Action Plans – the October 2001 Action Plan on Terrorist Financing and the April 2002 Action Plan on Emerging Markets – in which we defined objectives and then reported on progress toward those objectives at subsequent meetings.

Higher growth is essential to raise incomes and create more jobs. Without higher growth we will not have the resources to deal with an aging society, provide adequate national security, or, more generally, provide the means for people to pursue a more enjoyable life for themselves and their children. Moreover, higher economic growth in the G7 is one of the most effective ways we can reduce poverty around the world. Higher economic growth throughout the G7 will redress global imbalances that arise inter alia from uneven growth within the G7. Economic growth has been too low for too long in the G7, and while there are notable recent policy changes, it is time to bolster our efforts.

Key objectives

The reasons for low growth differ from country to country. But as shorter-term demand-side problems are addressed and the global recovery proceeds, longer-term supply-side impediments to higher productivity growth and employment are being revealed in many countries. Our key objectives, therefore, are on the supply-side - structural policies that increase flexibility and raise productivity growth and employment.

What have we done recently?

Progress achieved so far provides a good foundation to build on. Examples, one for each country, include: reductions in marginal tax rates on dividends and capital gains in the United States; improved incentives to work in the United Kingdom; sustainability of the public pension system along with higher limits on savings in private retirement plans in Canada; pension reform in France; tax reform in Germany; flexibility in labor contracts in Italy; and new R & D tax credit in Japan.

What more will we do?

Each of our governments intends to pursue additional pro-growth policies. Examples include: tort reform in the United States; a reform agenda 2010 for labor market and the pension system in Germany; public sector reform and further steps in health care reform in France; pension reform in Italy; Basic Policy for Economic and Fiscal Management and Structural Reform 2003 in Japan; measures to improve skills and labor force productivity in the United Kingdom; and full implementation of the five year tax reduction plan announced in 2000 in Canada. In the European Union, investment needs to be revitalized, with a particular emphasis on infrastructure and research and development.

Why do this as a Group?

These are primarily national responsibilities, but there are spillovers. Higher growth in the United States benefits the other G7 countries; but higher growth in the other G7 countries benefits the United States too. Moreover, many pro-growth polices, such as trade liberalization, involve all of us. Working as a group we intend to do regular supply-side surveillance, benchmarking proposals and reviewing results. This will complement our ongoing demand-side surveillance and mutually encourage progress toward pro-growth policies.

First Agenda for Growth Progress Report
February 2004, Boca Raton

In September 2003, we adopted the Agenda for Growth initiative to focus our efforts on the need to undertake supply-side and structural policy changes to increase flexibility, raise productivity growth and employment, and achieve higher, sustained growth in our countries. Such reforms sometimes may entail short-term costs, but

have proven critical to advancing long-term growth. We also committed to experience-sharing, to reviewing our results together, and to reporting on our progress. Our focus is on cooperation. Today, in Boca Raton, we reviewed our accomplishments thus far and outlined our future priorities. In this Progress Report, we list selected accomplishments since September 2003 -- one for each country -- and review upcoming reform plans.

Accomplishments since September. Germany enacted key elements of the reform Agenda 2010, including labor market measures that improve work incentives and further tax reduction. Canada completed the full implementation of its five-year, $100 billion tax reduction plan. Japan formulated a pension reform plan in December 2003 with a view to securing long-term sustainability of the pension system, and is preparing for legislation to implement the reform. France is implementing key provisions of its pension reform law that significantly improves the sustainability of its public finances. The United Kingdom announced new measures to help small business raise finance and to help promote a culture of enterprise, and to improve access to its R&D tax credit. Tax rate cuts in the United States worked their way through the economy to promote record growth. Italy's recent labor market reforms entered fully into force in October, contributing to the further reduction in the unemployment rate.

Upcoming Reform Plans. Our governments remain committed to pursuing additional pro-growth policies. The United States plans to spur saving by creating lifetime and retirement savings accounts and reducing the structural budget deficit, and to support job creation by making health care more affordable and pressing for tort reform. In an effort to raise productivity, the United Kingdom is targeting reductions in enterprise regulatory requirements including a collaborative initiative on regulatory reform across the EU over the next two years, establishing a long-term strategy for funding innovation and scientific research, and extended skills training programs. While continuing its steady reduction in the debt-to-GDP ratio, Canada will provide municipalities with the resources they need for infrastructure investment by exempting them from the Goods and Services Tax they now pay (worth $7 billion over the next decade) and examining other fiscal mechanisms to provide further predictable funding. Italy expects to push forward with its pension and corporate tax reform, including tax exemptions on dividends and capital gains, in 2004. France plans to advance health care reforms this year, while continuing to press for fewer labor market constraints. Japan will work on further fiscal expenditure and revenue reforms, including in social security, and will continue to address financial sector reforms. Pension and tax code reform remain key priorities in Germany, combined with further improvements in the framework for innovation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

May 13, 2004
JS-2079

Testimony of
Randal K. Quarles, Assistant Secretary for International Affairs
U.S. Department of the Treasury
Before the House Financial Services Committee

Introduction

Thank you, Mr. Chairman. It is a great pleasure to testify on the U.S.-EU Financial Market Dialogue. Indeed, the Treasury Department thanks the Committee for its continued attention to transatlantic financial market and regulatory relations and its support for the Dialogue. This backing has been integral to the progress made.

To be sure, there have been longstanding financial market discussions between the United States and Europe. But the US-EU Financial Market Dialogue, for all intents and purposes, began in March 2002. Since then, technical meetings of the Dialogue, which is led jointly by the Treasury Department and the European Commission Internal Market Directorate and includes the active participation of U.S. regulators, have taken place on more or less a quarterly basis. In addition, the Dialogue is supplemented by substantial interaction of senior policy officials.

Both the United States and the EU have increasingly viewed the Dialogue with satisfaction. At the last two US-EU Summits both sides provided favorable press statements about the Dialogue. For the upcoming Summit in Dublin, Ireland on June 27, we anticipate that Dialogue participants will provide a short joint report to Leaders. In my remarks, I will outline some key factors underpinning the Dialogue, recent achievements, and issues in which the Dialogue will likely play a role going forward.

The Dialogue's Objectives

The Dialogue from the start has been a two-way street reflecting mutual self-interest. A central aim of U.S. foreign economic policy is to promote a strong global economy. The United States is doing its part, but in Europe growth has lagged and needs to become more broad-based. Last September, G-7 Finance Ministers committed to an Agenda for Growth. This Agenda focuses on structural measures that countries can take to boost productivity and raise economic potential.

U.S. history shows that a strong, efficient capital market is a critical pillar for robust growth. Several studies have concluded that the creation of a truly liberal and integrated European capital market through Europe's Financial Services Action Program (FSAP) could raise EU growth by more than one percent per annum in a decade's time. Building on the successful introduction of the euro, progress on both the Agenda for Growth and the development of an integrated European financial market could be a lasting benefit not only for Europe, but also for the United States, emerging markets and developing countries throughout the world.

Our economies are part of a globalized economic and financial system. Hence, in observing the building of the European capital market, the United States has an interest in an FSAP that successfully anchors the European financial system in an integrated, state-of-the-art, open and soundly supervised global financial marketplace.

Also, U.S. financial institutions have long been global leaders and they are a vital part of the European financial landscape. We are clearly interested in seeing that our firms are able to compete globally on fair terms, which reward their competitiveness and demonstrated capacity to innovate. Indeed, we believe that US firms can help contribute to the European economy and financial system. For example, US firms have been leaders in the development of mutual fund products, which are critical for pension plans. Many analysts believe that greater use in Europe of such products under defined contribution plans is essential for addressing Europe's demographic challenges.

Just as the United States is interested in the evolution of the European capital market, so is Europe interested in the evolution of the US capital market. As the Chairman knows from the promulgation of the law informally bearing his name, US financial market legislation can have implications for market participants outside the United States. European firms are understandably interested in access to US capital markets.

Both parties to the Dialogue share an interest in promoting the common objective of strong capital markets that are soundly regulated. But in achieving these objectives, we both recognize that the United States and Europe have different financial, legal, historical and cultural traditions. Because of these differences, actions by one of us may have unintended spillover effects into the other's jurisdiction.

Before us are the paths of cooperation or confrontation. Together, we have decided that our challenge is to see through these different traditions, to work to achieve our common objectives in substance and to manage these spillovers. That is why the United States and Europe have a mutual self-interest in closely cooperating on financial markets through the Dialogue. That is why we meet often to promote understanding between us, to discuss emerging issues and the implications of these issues for each other, and to anticipate problems and work them out if possible. Managing the Dialogue successfully, we believe, will produce a win-win outcome for the US, Europe and the world.

The Agenda

The United States strongly supports the Financial Services Action Plan and we commend Europe for its ambitious goal of unifying its capital markets and for the progress made to date. At the present juncture, the European Parliament has approved all but three of the 42 FSAP measures, which are now in varying stages of implementation. Because thorny issues lay buried in the details of these measures, it was important for the U.S. to actively engage with the EU on their ramifications for U.S. interests.

It is perhaps axiomatic that financial markets will always be a step ahead of the regulators and that regulation should ensure soundness while not stifling dynamism. Thus, effective rule-making requires close cooperation with market participants. We have been particularly pleased by the more transparent processes in Europe for financial rule-making that have emerged over the last two years and the increased consultations with market participants, including US financial institutions operating in Europe. We are also pleased that Brussels and the European Parliament appreciate that working with market participants can improve European rule-making, create a greater consensus and buy-in for proposed regulations, and strengthen European financial markets.

Some of the key issues we have been discussing with Brussels are the following.

- Financial Conglomerates Directive. We have been discussing the Financial Conglomerates Directive for two years. It requires a foreign supervisory regime to be deemed "equivalent" by the EU for firms based in that country to operate within the single EU market without costly legal and financial changes that could prove harmful to the European market. Our supervisory regime is top flight and world class. But to help Europe reach a finding of equivalence, all U.S. regulators (FRB, SEC, OTS, NAIC) have

cooperated closely with Brussels and with member state regulators in explaining their approaches to consolidated supervision. We are confident that this process, albeit slow, will be brought to a successful conclusion.

- Prospectus and Transparency Directives. These directives initially suggested that US firms listing new securities in Europe should prepare financial statements on the basis of International Accounting Standards by 2005, rather than US GAAP, or cease issuing in Europe. Further, the draft directives made no provision for grandfathering previously listed issues. We have discussed these matters with Brussels for the last year, and final texts provide for grandfathering of existing issues. Also, to enable continued new listings by US firms in Europe using financial statements prepared under US GAAP, criteria are being crafted to allow European countries to make an affirmative determination later this year that US GAAP is "equivalent" to IAS.
- Investment Services Directive. This directive sets conditions for European share trading and raised the question of whether firms needed to put all trades through stock exchanges or could match orders internally, which is a common market practice in the UK. In the end, Brussels softened features of the draft bill so as to permit internal order matching and price improvement for transactions greater than "retail" size.
- Takeover Directive. When drafted, this directive sought to build an integrated European market for M&A activity to help attract capital and rationalize inefficient firms. In the end, it allows member states to maintain national protections for some firms against takeovers. Brussels has assured the United States that any discrimination against third country firms would be inconsistent with Europe's international obligations.

Thus far, Europe is making progress under the FSAP in building an integrated capital market. Compromises reflecting different European country practices are an inevitable part of the FSAP process. But Brussels, the Parliament and the member states are working to instill as liberal a vision as possible for the European capital market. While this vision may not be identical to the perspectives of the New York or London markets, its implementation is a work in progress, it represents an important step forward and the extension of this vision to the EU internal market will contribute to the growth of global capital markets.

For its part, the EU cares deeply about financial market developments in the United States. Though the start of the Dialogue predated corporate malfeasance disclosures with respect to Enron and WorldCom, rapid enactment of the Sarbanes-Oxley Act in mid-2002 gave Europe more reason to accelerate talks with us on corporate governance issues. As many of these issues are in the domain of my colleague from the Securities and Exchange Commission, I will not comment on them other than to note that both the letter and spirit of Sarbanes-Oxley were fully observed, and EU concerns were substantially accommodated.

In terms of the near-term agenda, both sides have also discussed a range of other issues, including the Basel II Accord, foreign trading screens and the Capital Equivalency Deposit Requirement (CED).

Looking Ahead

The quest to build a European capital market will not end with the 42 measures. Following the selection of a new Commission and European Parliament, the EU and the United States will need to tackle new challenges together in promoting a stronger and more vibrant transatlantic capital market.

Among these challenges are the promotion of convergent accounting standards on both sides of the Atlantic, improving corporate governance and strengthening investor protections and confidence, and reducing costs of investment in Europe by creating a European-wide system of clearance and settlements. The effort to promote convergent standards -- consistently applied, implemented and enforced -- is particularly critical. By effectively tackling these challenges, a truly vibrant and integrated transatlantic capital market may come into being.

Conclusion

In conclusion, Mr. Chairman, the Dialogue has been making good progress. But many challenges remain. Already, the Dialogue has increased the transparency of rule-making and imparted momentum to financial market reform in Europe. Furthermore, the Dialogue is rightly credited as having helped defuse transatlantic tensions in an important area vital to the functioning of the world economy. The goals of the Dialogue support the Agenda for Growth, which is a key theme for this year's G-7 process. Finally, there is the expectation on both sides of the Atlantic that if the US and EU can agree on financial regulatory standards, then others around the world will follow. As you can see, the potential benefits are enormous, and not just for the U.S. and EU. It is important that the Dialogue succeeds, and I believe it will.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 2, 2004
JS-2080

U.S Treasury Secretary John W. Snow
Plenary Statement
2004 Annual Meeting of the IMF and World Bank
Washington, D.C.
October 2, 2004

Good morning, and welcome to Washington. Thank you Chairman, Mr. Wolfensohn, Mr. Rato.

Each year, we gather to review the state of the world economy and discuss how to carry forward our shared mission of promoting growth and stability, advancing development, and improving the lives of all our peoples. Today, we meet at a time when global growth is stronger than it has been in three decades -- a time that gives us the opportunity and the obligation - to build on what has been accomplished. We cannot be complacent - too many people depend on us. We must do all we can to ensure that all people can enjoy the benefits that come from sound economic policy.

The U.S. economy has been an strong engine of growth in the global economy, so I am pleased to report that the U.S. economy is on a very positive path. Although growth slowed slightly in the second quarter this year, real GDP was up more than 4 ½ percent over the past year. Capital spending has risen at a double digit pace over the least year. Manufacturing output is strong. And the economy has now added more than 1.7 million jobs over the last year. This recovery didn't occur by accident. It occurred because the U.S. economy is open, dynamic and flexible, and because of the implementation of sound fiscal and monetary policy -- including implementation of President Bush's Jobs and Growth Plan.

U.S. economic fundamentals are sound: productivity growth continues; inflation remains modest; interest rates remain low; and job creation is continuing. And at a little over 3 ½ percent of GDP in the current fiscal year, the federal deficit remains low compared to the levels in the 1980s and 1990s. But deficits are always too high and so we expect to reach the President's goal of cutting the deficit in half over the next five years.

In the global economy, we still want to see growth be more broad-based. The G-7 countries are working to increase economic potential through their commitment to structural policy reforms under the Agenda for Growth. We are already seeing results from this effort. For our part, President Bush has introduced a plan to make tax cuts permanent, make health care costs more affordable and predictable, reduce the lawsuit burden on the economy, ensure an affordable and reliable energy supply, and streamline regulations and reporting requirements. Other G7 countries are implementing reforms appropriate to their own economic conditions.

The international financial institutions are vital agents in delivering the resources and advice necessary to achieve broad-based growth and raising living standards. It is a key priority of President Bush that the institutions are focused and prepared to achieve these goals. President Bush's delivered this message, and innovative proposals, when addressed the

World Bank in the summer of 2001. I am proud to have worked with our fellow shareholders and the leaders of the IMF and World Bank to achieve an important policy shift in the institutions - bringing tighter focus, more predictability and transparency, and greater emphasis on delivering measurable results.

Specific changes - including greater use of grants instead of loans to the poorest countries, the introduction of limits for exceptional access to the IMF's financial resources, and the advent of collective action clauses as the market standard in sovereign external bond issues - are already making a tremendous difference in individual countries and the system as a whole.

The successes we have had together thus far should inspire and embolden us to extend our drive for reform. We all know that we must continually strive for excellence at the IMF and World Bank so that they can work more effectively in the modern global economy. I hope we can work together to make it happen.

In my view, there are several particularly key areas for reform.

In addition to strengthening the analysis and advice provided all members, I support introduction of a new tool facilitating the active policy engagement of the IMF with countries that seek such a relationship but do not need financial support. Such a policy monitoring arrangement should serve to increase the emphasis on countries' own policy programs and maintain a high standard for reforms.

The World Bank must maintain its focus on areas critical to economic growth and poverty reduction. Greater priority on the private sector, particularly small and medium-sized enterprises is important. Good progress has been made in introducing results-based programs; these tools need to be more fully integrated within the World Bank and other development banks to help us measure and learn from successes.

Finally, President Bush and the G-8 Leaders in Sea Island reiterated a strong commitment to the HIPC initiative and to helping the heavily indebted poor countries achieve sustainability. We must do more to prevent the build-up of unsustainable debts in poor countries. Increased reliance on grants is an important first step. But we need to do more to put these countries on a path to the future. Employing both grants and debt relief together would give the poorest countries a chance to reach their international development goals of the Millennium Declaration without adding to debt burdens. I am working with my colleagues in the G7 and other donors, with the institutions, and with recipient countries to achieve a consensus on the best way to solve the debt sustainability problem and ensure that our reforms only result in greater, not fewer, resources to poor countries.

I hope that we can all work together - shareholders, donors, and institutions -- to succeed in achieving these goals.

Thank you.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 1, 2004
JS-2082

Assistant Secretary of the Office of Economic Policy
Mark J. Warshawsky
Statement for the Treasury Borrowing Advisory Committee
November 1, 2004

Economic activity accelerated in the third quarter after what turned out to be a slight and temporary slowing in the second quarter. The labor market also continued to improve. Nonfarm payroll employment rose by 309,000 during the quarter, resulting in 13 straight months of job increases for a total of 1.9 million new jobs created (adjusted to incorporate the BLS estimated benchmark revision to March 2004 employment). The unemployment rate held steady at 5.4 percent in September, its lowest rate since October 2001 and below the average of each of the past three decades. These are very positive developments that have helped lift compensation in the third quarter at a 3.3 percent annual rate in real terms, the largest advance this year.

Last week the Commerce Department reported that real GDP, which had increased at a respectable 3.3 percent annual rate in the second quarter, followed up with a 3.7 percent gain in the third quarter. The composition of growth in the third quarter was favorable, with real final sales up at a 4.2 percent rate – the strongest increase in a year. The pickup chiefly reflected renewed growth of personal consumption expenditures. These expenditures rose at just a 1.6 percent annual rate in the second quarter but that was followed by a 4.6 percent surge in the third quarter as consumer outlays for a variety of goods strengthened, especially for motor vehicles. Consumer expenditures for motor vehicles and parts had declined in each of the previous three quarters, but rebounded at more than a 27 percent seasonally adjusted pace in the third quarter. Part of that turnaround reflected the response to more generous motor vehicle incentives.

Business investment continues to be another key driver of economic growth. After rising at an average annual pace near 12 percent over the last year and a half, real investment in equipment and software extended that string into the third quarter, increasing at a 14.9 percent annual rate. Investment in structures has also improved during the last year and a half and continued to grow in the third quarter.

Gains in corporate profits, favorable tax incentives and confidence in the economic expansion have supported the rise in investment. Based on the latest available data through the second quarter, the GDP measure of corporate profits (with inventories and depreciation adjusted to reflect replacement cost) has risen 19 percent over the past year, chiefly from domestic nonfinancial corporations. Profit margins (as a share of gross domestic income) are high, contributing to strong cash flow -- the internal funds available for investment. Steady growth in profits and cash flow should continue to spur investment growth going forward.

Real residential investment grew at a moderate 3.1 percent rate in the third quarter. Despite quarterly fluctuations, the housing sector remains very strong. Through the first three quarters of the year, the rates of new and existing home sales are both above the record-setting annual levels of last year. Mortgage rates remain low and have come down from just over 6 percent a few months ago to 5.7 percent in October. Housing starts rose at more than a 10 percent rate in the third quarter, indicating renewed growth ahead for home construction after unusually stormy weather in the third quarter may have affected construction activity.

Inventory investment was a moderate negative factor in the third quarter. A widening trade deficit was also a drag on growth as it was in the previous three quarters, but the 0.6 percentage point subtraction was much less than the 1.1 point

negative contribution in the second quarter. Exports rose at a 5.1 percent rate in the third quarter and have been growing robustly for five straight quarters, but they continue to be more than offset by a larger volume of imports. Although there are signs of firming in demand for U.S. exports, slower economic expansion among many of our major trading partners than in the United States continues to be a factor in the faster growth of U.S. imports than exports.

Budget results for fiscal year 2004 came in better than expected. The July Mid-Session Review had projected a budget deficit of about $445 billion, but growth in the economy and jobs yielded a deficit of only $413 billion, equivalent to about 3-1/2 percent of GDP. This is much lower than deficits in the 4-1/2 to 6 percent of GDP range at various times in the 1980s and 1990s. With continued economic growth and job creation, along with spending restraint, the Administration's policy is to cut the deficit in half over the next five years to less than 2 percent of GDP.

Consumer price inflation remained contained in the third quarter, rising at a 1.9 percent annual rate, although there was some evidence of rising producer price pressures at earlier stages of processing. The broadest measure of inflation, the GDP price index, rose at only a 1.3 percent pace in the third quarter.

Developments in oil markets continue to be a concern. The oil intensity of U.S. GDP has fallen by nearly half since the first oil shock in the early 1970s, but the price of oil remains a key variable in the macro outlook. To deal with the temporary reduction in oil production from the Gulf of Mexico resulting from the recent run of hurricanes, the Administration authorized the release of oil from the Strategic Petroleum Reserve. This has helped contain prices and illustrated the long-held Administration stance that the SPR should be used only in the case of a true supply disruption.

At the same time, the still-high price of oil also illustrates the importance for our economic security of following through on the Administration's proposals to enhance domestic energy supplies and to adopt technologies to use energy more efficiently.

In sum, despite the concerns raised by high and volatile oil prices, recent macroeconomic data suggest the economy is already strong and continues to improve. Real growth continues to be above trend, the unemployment rate is low and moving down, inflation is low, and the budget situation is improving faster than expected.

FROM THE OFFICE OF PUBLIC AFFAIRS

November 2, 2004
2004-11-2-14-5-28-28740

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $84,687 million as of the end of that week, compared to $84,067 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	October 22, 2004			October 29, 2004		
TOTAL		84,067			84,687	
1. Foreign Currency Reserves [1]	Euro	Yen	TOTAL	Euro	Yen	TOTAL
a. Securities	11,465	14,643	26,108	11,565	14,834	26,399
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,284	2,943	14,227	11,386	2,981	14,367
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			19,723			19,837
3. Special Drawing Rights (SDRs) [2]			12,966			13,041
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 22, 2004			October 29, 2004		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets

	October 22, 2004			October 29, 2004		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

Bureau of the
PublicDebt
United States Department of the Treasury

'ublic Debt Announces Activity for Securities in the STRIPS Program for ıctober 2004

ↄR RELEASE AT 3:00 PM

ↄvember 4, 2004

ıe Bureau of the Public Debt announced activity for the month of October 2004, of securities within the Separate Trading of Registered terest and Principal of Securities program (STRIPS).

	In Thousands
rincipal Outstanding (Eligible Securities)	$2,836,138,405
eld in Unstripped Form	$2,660,332,331
eld in Stripped Form	$175,806,074
econstituted in October	$13,288,169

e accompanying table, gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to dit and subsequent revision. These monthly figures are included in Table V of the Monthly Statement of the Public Debt, entitled oldings of Treasury Securities in Stripped Form."

e STRIPS table, along with the new Monthly Statement of the Public Debt, is available on Public Debt's Internet site at: /w.publicdebt.treas.gov. A wide range of information about the public debt and Treasury securities is also available at the site.

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U.S. Department of the Treasury, Bureau of the Public Debt

Last Updated January 7, 2005

JS 2083

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 4, 2004
JS-2084

The U.S. Current Account: Recent Trends and Policies
John B. Taylor
Under Secretary of the Treasury for International Affairs
Keynote Address
American Enterprise Institute Conference on
Policy Challenges of Global Payment Imbalances
Washington, D.C.
November 4, 2004

It is a pleasure to participate in this conference on the adjustment of global payments imbalances and I thank Desmond Lachman for the invitation.

Balance of payments adjustment has long been a concern for international economists and policy makers. Indeed, 40 years ago, concerns that the balance of payments adjustment process was not working smoothly led to the creation of a special working party of international officials--called Working Party 3 of the OECD--to address these concerns. Working Party 3 (WP3) still exists today, and, as its current Chairman, I can tell you that global payments adjustment is still a major topic for discussion among international policy makers.

In the 1960s, the current account deficit of the United States was a major focus. The same is true today. But the nature of the policy discussion has changed dramatically. The Bretton Woods system of fixed exchange rates is gone, replaced by a smooth-working system of market-based flexible exchange rates among the major currencies, though fixed exchange rates are still being used in some large economies. The policy analysis has also changed. For example, thinking of payments imbalances as a gap between saving and investment was unheard of in the WP3 discussions in the 1960s. In contrast, as I will emphasize in these remarks, the saving–investment gap is now the essence of both the explanations of the payments imbalances and the policy challenges today.

Today's Current Account Deficit

The U.S. current account deficit measured as a percentage of GDP has risen from about 1 percent in 1990 to about 4 percent in 2000 to about 5 in the first half of this year.

What explains this development? In my view the best way to think about the current account is as the gap between investment and saving. When investment in the United States is higher than domestic saving, foreigners make up the difference, and the United States has a current account deficit. In contrast, if saving exceeds investment in a country, then that country has a current account surplus as its people invest abroad.

Consider the first half of this year for example. The U.S. current account deficit was $594 billion (at a seasonally adjusted annual rate and on a national income account basis). This $594 billion deficit equaled the gap between $2,246 billion in investment and $1,652 billion in saving[1]. That is, U.S. domestic investment was $594 billion more than domestic saving with net foreign investment making up the difference.

Viewed in these terms, the $112 billion increase in the U.S. current account deficit in the four quarters ending in the second quarter of this year (measured on a national income account basis), corresponded to a $335 billion increase in investment outstripping a $224 billion increase in saving. This increase in

investment was a key factor in U.S. economic growth during this period. Over a longer period the increase in investment will expand the capital stock, which will raise potential output and increase wages. New technological processes are embedded in enhanced investment levels and will further raise productivity.

As this example indicates, the increase of the U.S. current account deficit over more than a decade has been linked to domestic U.S. capital formation increasing more than U.S. saving. Perceived high rates of return on U.S. assets, based on strong productivity growth relative to the rest of the world, combined with an efficient and secure U.S. capital market attracts foreign investment. Thus, sound, growth enhancing, economic policies are continuing to make the U.S. an attractive place to invest. There are parts of the world that currently have large savings rates and limited domestic opportunities. We would certainly not object - in fact, we'd be very pleased - if other countries strengthened their investment environment, their level of investment, and their economic growth performance.

A U.S. current account deficit implies that foreigners are acquiring more assets in the United States than Americans are acquiring abroad, and already foreigners own more assets in the United States than Americans own abroad. So far, Americans are still receiving more income from abroad than they are paying abroad, but at some time in the future Americans will need to pay a net return to foreigners. The larger capital stock at their disposal producing more income than would otherwise have been the case will enable these payments.

[1] Including the relatively small statistical discrepancy.

Economic Policy and the Current Account

In addition to helping to explain the trends, this view of the current account also tells us the kind of economic policies that will reduce the current deficit and at the same keep the United States and the world economy strong. So let me now describe three types of economic policies that the Bush Administration is pursuing and will continue to pursue which relate directly to the current account.

Saving in the United States

Let me first turn to policies aimed at increasing saving of the public sector and the private sector. To be sure there is no one-to-one correspondence between the fiscal deficit in the United States and the current account deficit. For example, the decline in the current account deficit as a percentage of GDP increased by more in the late 1990s when there was a fiscal surplus than it has since the start of the economic downturn in 2000 - when the deficit increased in part as a consequence of well-timed tax-cut policies to help mitigate and end the recession. Nonetheless, a reduction in the U.S. fiscal deficit now as the economy expands will reduce the current account deficit if private saving and investment do not change in a way to offset this reduction.

An important element of the Administration's fiscal policy is that as the economy continues to expand and the growth of government spending is contained, the fiscal deficit will decline substantially. Indeed one can already see evidence of this in the fiscal year that just closed. Because of the strong economic expansion, the federal budget deficit for fiscal year 2004 turned out to be less than either CBO or the Administration forecast at the start of the year. The deficit is $108 billion less than the Administration's forecast. Next year the budget deficit is projected to be less than 3 percent of GDP, and continue to contract through the rest of the decade.

Likewise, increased private saving can play an important role in reducing the current account and also supporting long-term growth in the U.S. economy. The adoption of education savings plans and health savings plans are two steps the Administration has already taken to promote private savings. Increasing saving for retirement is more and more important as the population ages. The Administration has made efforts to encourage and safeguard retirement savings in the workplace.

But more can and should be done. The tax reform and social security reforms called for by President Bush--including the introduction of personal savings accounts--are an opportunity to further reduce the disincentives to save and provide long-term benefits to the U.S. economy.

Policies to Boost Global Growth

A second group of economic policies are those that will raise global growth. These will ameliorate the deficit by raising U.S. exports and increasing investment opportunities around the globe. And of course strong global growth has other benefits as well. Indeed, the effects of recent policy efforts are already visible in increased economic growth and greater economic stability around the world. Global economic growth is as high as it has been for 30 years and there are no major recessions or financial crises.

Several international economic policy initiatives have been undertaken in recent years to promote growth. Last year the G-7, under U.S. leadership, adopted the Agenda for Growth, which has emphasized structural, supply-side policies, especially in Europe and Japan, to increase flexibility and boost productivity growth and employment. In 2001, the U.S.-Japan Partnership for Growth established by President Bush and Prime Minister Koizumi led to candid discussions on how to promote sustainable growth in Japan. Early in the Bush Administration, President Bush and President Fox of Mexico created the Partnership for Prosperity, a private-public alliance to promote investment in parts of Mexico where growth has lagged. More recently President Bush and President Lula created a U.S.-Brazil Group for Growth to review and assess strategies to raise productivity and employment in Brazil. All of these initiatives aim to promote long-term investment opportunities in these countries and U.S. export opportunities.

The reduction of trade barriers through the Doha Development Round is vitally important for increasing economic growth but also for opening markets for exports from the United States and other countries. And with the right policies there could be much more foreign private investment in the low-income countries. Programs such as the recently created Millennium Challenge Corporation (MCC) and the World Bank's *Doing Business* initiative are keys to supporting low-income countries that are undertaking economic reforms to promote economic growth.

Market-Based Flexible Exchange Rates

A third area of policy relates to exchange rate flexibility. For small open economies, a currency board, dollarization or being part of a currency union can contribute greatly to stable prices and sound macroeconomic management. But exchange rate flexibility among currencies of major economies provides important paths of global adjustment to economic shocks. We have discussed these issues extensively in meetings with G-7 finance ministers and central bank governors and in other international fora. At the recent G-7 meetings in Dubai, Boca Raton and Washington, we achieved strong consensus in support of flexible exchange rates. The Boca Raton G7 communiqué, repeated in the Washington G7 communiqué, emphasized that "...more flexibility in exchange rates is desirable for major countries or economic areas that lack such flexibility to promote smooth and widespread adjustments in the international financial system, based on market mechanisms."

China is a large and growing economy. In 2003 it had a GDP of $1.4 trillion or $6.4 trillion adjusting for purchasing power parity. China is continuing to grow strongly and has become an important source of global growth. It has become a regional processing hub, finishing imported products from other Asian countries for final export. Other Asian emerging market economies follow China's economic strides and exchange rate policy closely. A flexible exchange rate is appropriate for China, not only in light of its growing international role but also in order to better manage domestic macroeconomic, particularly monetary pressures. Regionally, the Renminbi is an anchor currency and any movement toward flexibility should spread to other currencies.

The Bush Administration has had an unprecedented level of engagement with the Chinese government on its exchange rate policy including a technical cooperation program. We have broadened our diplomatic strategy to include China's major trading partners through the G-7. In early October, G-7 Finance Ministers and Central Bank Governors met for the first time as a group with their Chinese counterparts and discussed these issues.

The People's Bank of China's recent moves to increase its one-year lending and deposit rates are the latest examples of China's more systematically management of monetary policy. Such actions represent significant steps in support of China's

move to a flexible and market based exchange rate.

Current Account Adjustment and Financing

In the last three plus years, I have traveled throughout the United States and other countries meeting with a wide variety of international experts from the private and public sector to discuss the Bush Administration's economic policies. Questions about the adjustment or the financing of the current account often surface in these discussions, and, as I mentioned, I am currently chairing an international group whose main purpose is to examine questions about the adjustment and financing of the current account. I readily highlight the positive actions taken by the U.S. government, which will promote more growth throughout the world and reduce external imbalances. And I recommend strongly against actions that would be detrimental to the United States economy or the world economy even if one could argue that they would reduce the current account deficit. The beneficial impact of these positive measures may take time to materialize, but there is no reason to expect that financing and adjusting will not be adequate and smooth.

First, it is important to put the current account in the perspective of the total amount of financial flows crossing U.S. borders in large, open and flexible markets. The scale and scope of these capital flows represent a critical link for understanding the resources to fund the current account deficit.

Let me use an example from the most recent balance of payments statistics in the first two quarters of this year. From the first to the second quarter, the current account deficit increased from $147 billion in the first quarter to $166 billion in the second quarter, an increase of $19 billion. How was this increase financed? Net purchases of U.S. assets by the official sector actually fell by $54 billion; recall that intervention in exchange markets by Japan came to a halt on March 16. What about private purchases of U.S. assets? They declined too, by $126 billion from $317 billion to $191 billion. So where did the increased financing come from? The answer is a reduction in the purchase of foreign assets by U.S. residents, investors, and corporations. The net purchase of foreign assets fell by $188 billion. Note that in this example it was simply the reduction in the amount of purchases by Americans of foreign securities that did the financing. The stock of U.S. owned assets abroad continued to increase. Although data are difficult to obtain, our estimates indicate that the U.S. investment position represents a stock of capital of about $8 trillion.

This example also illustrates why certain ratios, such as "official sources of finance as a percentage of the current account," can be misleading. In the first quarter of this year that ratio was 92 percent. In the second quarter it fell to 50 percent. Yet the financing of the current account proceeded smoothly. Volatility in the markets remained low and long-term interest rates actually fell during the year.

Some ask about the econometric models that are used to estimate the size of a currency adjustment that would be associated with a given current account adjustment. These models sometimes find large currency changes, but they sometimes also tend to look mechanically at the effect of an isolated exchange rate change. In reality many factors change simultaneously because the dollar and other major currencies are determined in markets. Further, it is important to keep in mind that, embedded within such model simulations, is an assumed U.S. current account at a certain given level.

Another question relates to a long-standing empirical observation that the U.S. income elasticity of demand for imports substantially exceeds trading partner income elasticity of demand for exports. This gives rise to pessimism that equally rapid growth at home and abroad would lead to an increase in the deficit. More recent research shows a significantly reduced asymmetry, however, particularly when data for the period since the 1990s are considered. As the world evolves, elasticity asymmetries, which may have been prominent in the 1960s and 1970s, are less present in more recent times. This more recent finding should not be surprising. As foreign countries grow and undertake structural reform, their income elasticity of demand for imports may rise. For example, Japan's import elasticity rose during the 1990s, confirming that the Japanese economy was moving to a more import-dependent structure than in the past. This is a manifestation of a shift in the industry mix of the Japanese economy, from the "full-set" structure of the past to a structure based on division of labor with East Asia. Structural reforms clearly had a role and will continue to have a role.

Conclusion

In sum, in these remarks I have tried to review the reasons for the recent current account trends in the United States, some of the related policies that the U.S. government is pursuing and will pursue in the future and some of the questions that people raise about financing and adjustment. I think the policies are the correct ones both for increasing growth and reducing the current account deficit. As we think about the future, there is great promise that the current global expansion will be a long lasting one, and this alone is good for the world economy as well as for the current account statistics.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2004
JS-2085

Statement of Secretary John Snow on October Employment Report

The growing strength of the U.S. economy is further evident in today's employment report. For the fourteenth consecutive month, jobs were added in America. With the addition of 337,000 jobs in October and upward revisions to August and September, roughly 2.4 million jobs have been created since August of 2003, with 2 million so far in 2004. The unemployment rate remains below the average of the 1970s, 1980s and 1990s.

There can be no doubt that President Bush's tax relief, combined with good monetary policy, the strength of our small-business sector, and our outstanding workforce, has led to a growing economy that is producing good jobs for American families. With the pro-growth economic policies put forward by President Bush, and the unwavering strength of the American people, the U.S. economy will continue on its upward path of progress bringing rising prosperity to families across the nation.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2004
js-2086

Secretary Snow Names Daniel Glaser
Deputy Assistant Secretary of Terrorist Financing and Financial Crimes

U.S. Treasury Secretary John W. Snow announced today that Daniel Glaser has been named Deputy Assistant Secretary for the Office of Terrorist Financing and Financial Crimes (TF/FC).

"Danny has been a critical player in establishing important anti-money laundering and counter-terrorist financing policies over the past several years. He has well-represented the United States Government in helping safeguard the financial sector both at home and abroad," said Treasury Secretary John Snow. "The extensive knowledge and expertise he brings to his new position will further enhance initiatives to protect the financial system from corruption."

Mr. Glaser functions as the primary Treasury official for the development and coordination of international anti-money laundering and counter-terrorist financing policy. He is a key official in developing and implementing strategies to disrupt and dismantle money laundering and terrorist financing networks worldwide, and has led the Treasury effort to identify and secure the U.S. financial system from foreign money laundering and terrorist financing threats.

Mr. Glaser already plays a leading role in the international fight against money laundering and terrorist financing. He serves as the head of the U.S. delegation to the Financial Action Task Force (FATF) – the premier international body in the fight against money laundering. In that role, he is Co-Chairman of the FATF Working Group on Terrorist Financing, which is responsible for setting international standards in the area of counter-terrorist financing.

Mr. Glaser also has extensive experience addressing terrorist financing issues with an array of other international bodies including the G-7, the International Monetary Fund, and World Bank, and has served as the lead Treasury negotiator of the money laundering provisions in the U.N. Transnational Organized Crime Convention. Mr. Glaser has additionally represented the Treasury Department on numerous important bilateral terrorist financing related missions to Europe and the Middle East.

TF/FC resides within the Treasury's Office of Terrorism and Financial Intelligence (TFI), which was created by the Department earlier this year to bolster efforts in the financial war on terror. Mr. Glaser was named to this position as a part of the new, elevated leadership at the Treasury committed to combating terrorist financing, protecting the integrity of the financial system, fighting financial crime, enforcing economic sanctions against rogue nations and assisting in the ongoing hunt for Iraqi assets.

Mr. Glaser previously served as the first Director of the Treasury Department's Executive Office of Terrorist Financing and Financial Crimes, which was established in March 2003, and prior to that as Director of the Money Laundering and Financial Crimes Section of the Treasury. Mr. Glaser has also served as Senior Counsel for Financial Crimes in the Treasury Department's Office of the General Counsel, and prior to that as an attorney in the U.S. Secret Service Office of the Chief Counsel.

Mr. Glaser is a graduate of the University of Michigan and Columbia University School of Law, and began his career as an associate in the law firm of Coudert

Brothers.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 5, 2004
JS-2087

Treasury Official to Participate in Inaugural Montana Financial Education Conference

Treasury's Deputy Assistant Secretary for Financial Education, Dan Iannicola, Jr. will deliver the keynote address at the Montana Financial Education Coalition's inaugural conference, Financial Education...An Opportunity for Change, next week. Iannicola will speak about the importance of financial literacy and how these organizations can help improve and expand financial education in Montana.

Established in 2003, the Montana Financial Education Coalition seeks to improve the personal financial knowledge and decision-making ability of Montana citizens by promoting public awareness of the need for personal financial education. The conference will be attended by representatives of academic institutions, government agencies, and the financial services organizations from across Montana.

The following event is open to the press:

WHO: Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr.

WHAT: Montana Financial Education Coalition's Inaugural Conference

WHEN: Tuesday, November 9, 2004

11:45 a.m. (MST)

WHERE: Best Western Helena Great Northern Hotel

835 Great Northern Blvd.

Helena, MT

FROM THE OFFICE OF PUBLIC AFFAIRS

November 8, 2004
2004-11-8-15-51-35-24936

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $85,029 million as of the end of that week, compared to $84,687 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	October 29, 2004			November 5, 2004		
TOTAL		84,687			85,029	
1. Foreign Currency Reserves [1]	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,565	14,834	26,399	11,739	14,972	26,711
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,386	2,981	14,367	11,562	3,009	14,571
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			19,837			19,609
3. Special Drawing Rights (SDRs) [2]			13,041			13,095
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	October 29, 2004			November 5, 2004		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets

	October 29, 2004			November 5, 2004		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 29, 2004
JS-2088

Remarks of Mark J. Warshawsky
Assistant Secretary for Economic Policy
The Role of Tax and Regulatory Policies in Improving Good Corporate Governance
Detroit Economic Club

It is a pleasure to speak to you this morning about the role of tax and regulatory policies in improving corporate governance and in particular the linkage between effective policies and strengthening confidence in our market institutions.

The revelations of corporate scandals in 2001 and 2002 negatively affected market and investor confidence, creating a "confidence deficit" one might say. Fortunately, positive and complementary developments occurred in the areas of financial regulatory policy and tax policy that offset these negative factors and have contributed, I believe, to a sense of confidence and stability. The 2003 tax law enhanced corporate governance by creating incentives to payout a higher fraction of the "free" cash flows in excess of profitable investment opportunities to shareholders, reducing the extent of management's discretionary control over financial resources. This should have a salutary effect on confidence by bringing manager and shareholder interests into better alignment. Sarbanes-Oxley improved the quality of financial reporting and changed investor expectations of auditor and corporate behavior, further reducing the confidence deficit.

Before I delve into this, let me briefly talk about the macroeconomic context in which these policies were implemented. When President Bush took office in January 2001, he inherited an economy that had already weakened significantly. In spring of 2000, equity values dropped sharply, by mid-year industrial production had begun to decline and business fixed investment had stalled, contributing to negative GDP growth in the third quarter of that year. In March 2001, the economy sank into recession. The business cycle that began when the economy officially reached a peak that month has been unique for many reasons. Not only was it exacerbated most notably by the terrorist attacks of September 11, but the economic and financial recovery was delayed as the full dimension of corporate scandals dating back to the 1990s became apparent in 2001 and 2002. For example, in fourth quarter 2001, just at the November trough of the business cycle, real GDP grew at a 1.6 percent seasonally adjusted annual rate; a year later, real GDP grew at a mere 0.7 percent annual rate. The confidence deficit was also reflected in the stock market – one of the important leading variables for an economic recovery. Early signs of modest recovery in the stock market just prior to the official November 2001 recession trough quickly dissipated. In the year following the trough of the cycle, the S&P 500 index declined by 17 percent. This is especially striking when we consider that, in the third quarter of 2002, operating earnings for the S&P 500 were nearly 27 percent higher than they had been a year earlier; plainly, a lack of confidence kept the stock market from responding to improved economic performance.

The Jobs and Growth Tax Relief and Reconciliation Act (JGTRRA) of 2003 was a turning point. Along with an expansionary monetary policy, the passage of JGTRRA played a significant role in getting the economy onto a better and quicker growth path. As you know, the President proposed his tax cut plan in January of 2003; it was passed in May and made retroactive to the beginning of the year. The economy responded almost immediately. Job growth resumed in September 2003 and over the 13 months through September of this year American businesses added 1.9 million workers to their payrolls. The unemployment rate has receded from a peak of 6.3 percent in June 2003 to 5.4 percent in September of this year, lower than averaged in each of the past three decades.

Thanks to the President's various tax relief measures, American families have more money to spend. Real after-tax income has risen by 10 percent since December 2000, exceeding the performance recorded after the last recession and helping support personal consumption expenditures.

The current low-inflation, low-interest rate environment has also been very supportive, with the latter playing a pivotal role in the exceptional performance of the housing market. The homeownership rate is at a record 69 percent so far this year, and housing starts and home sales are on track to top last year's remarkable performance. The residential sector dampened the impact of the recession and has been a key factor in fueling the recovery.

These are but a few examples of the positive outcomes generated by recent fiscal and monetary stimulus. The bottom line is that U.S. economy is strong and getting stronger. Real GDP rose at a solid 3.3 percent annual rate in the second quarter following an impressive 5 percent gain over the prior four quarters – the largest such increase in nearly twenty years. The Commerce Department announced this morning that real growth increased to a 3.7 percent annual rate in the third quarter.

What you might not recognize, however - and which is of particular importance for my remarks today - is that the Jobs and Growth Act led to a significant increase in regular dividend payouts, the number of companies initiating dividends, and a decreasing reliance on debt financing. All of these things are positive from the point of view of good corporate financial health, corporate governance and confidence in market mechanisms. These effects perhaps are not as obvious as changes in the more familiar macroeconomic indicators, but they are quite important. Let me discuss this in more detail.

Among its provisions, the Jobs and Growth Act reduced dividend tax rates to 15 percent in most tax brackets; and dividend and capital gains tax rates were brought into equality at 15 percent. Taxpayers in the lowest two brackets now pay 5 percent on dividend income.

The reduction of the double taxation of dividends contained in JGTRRA directly addresses a critical corporate governance issue, called the agency problem. "Agency problem" means that corporate managers make decisions in their own interests rather than interests of shareholders. The problem is facilitated when a cohesive group of managers knows more about the operations of the company than a widely dispersed set of shareholders. Without a low-cost institutionalized structure to channel critical information to shareholders, it is difficult to achieve a concerted and informed exercise of shareholder rights over managerial decision making. The tax reduction lowered the cost to shareholders of implementing strategies that reduce agency problems by increasing the after-tax share of each dollar of dividend income. Because dividends were previously taxed at a higher rate than capital gains, corporations were encouraged to retain, rather than distribute, earnings. Investments made with retained earnings are usually subject to less scrutiny than those financed with outside equity or debt, reducing the pressure on corporate managers to undertake the most productive investments. Thus, dividends increase corporate accountability vis-à-vis investors. And critically, when managers are required to go to the capital markets to finance investments or acquisitions they become subject to the objective discipline of the markets' assessment.

In a seminal paper, Michael Jensen described how agency problems can be particularly significant for certain types of companies, with deleterious consequences. For example, if a relatively stable company has substantial cash flow but few profitable investment opportunities, managers may have incentives to encourage unjustified growth as a means to achieve higher compensation or promotional opportunities. In these circumstances we would expect to see capital expenditures made in low-return projects, or diversification outside the core business expertise. Research indeed indicates that poor corporate governance provisions that entrench management interests and weaken shareholder rights is associated with suboptimal stock returns, lower profits and sales growth.

So, dividend policy is an effective mechanism to control unproductive managerial discretion. And while dividend payments technically are subject to more flexible adjustment than interest payments on debt, the fact is that it is rare for dividend increases to be reversed except for compelling reasons.

A financial policy that commits the firm to both fixed interest and dividend payments

places strong limits on management discretion. It also sends an important signal to investors about the quality of the firm's operations and business strategy, that is, the company's ability to generate cash flow.

We also have evidence that the new tax law indeed had a significant effect on dividend policy. A compelling study appearing in an NBER working paper quantifies the linkage between significant increases in dividend payouts to the tax law changes. It is striking that statistically significant changes in behavior are detected both for companies initiating new dividends and for companies raising dividend amounts that were already in place.

The NBER study covers the period first-quarter 1980 to first-quarter 2004, and includes approximately 3,800 companies trading on the NYSE, AMEX and NASDAQ. Since the distribution of aggregate dividend amounts is highly concentrated, and affected by a few major entities, the authors focused on the number of firms initiating new dividends, and found that the trend in new dividend payments turned positive in 2003, after falling for more than two decades. The study also found a significant increase in the probability that a company already paying dividends would raise its regular quarterly payment by more than 20 percent; this finding was broad, across companies of all types, after controlling for company profitability and other characteristics. There was also a significant increase in special one-time dividends. Thus, the evidence strongly supports the view that higher dividend payouts were in response to the tax law changes; this should rein in managerial discretion and reduce agency problems.

A review by our office of annual S&P 500 company data from 1988 to 2003 corroborates the detailed NBER findings, with increases in both the number of new initiations and number of higher regular dividend payments, as compared to recent history. There are a number of other studies that reach the same conclusions.

I would next like to briefly review the second important contributor to building investor confidence, corporate accountability legislation. The Sarbanes-Oxley Act in essence declared that the quality of financial reporting should be raised, by making it more transparent, consistent and accountable. By doing so, market confidence would be bolstered because expectations of auditor and corporate behavior were changed.

We do not have time to review all ten titles of the legislation, but among the Act's key provisions was the creation of the Public Company Accounting Oversight Board (PCAOB). Indeed, last year, the PCAOB completed interim inspections of the "Big 4" accounting firms. Title II addresses concerns that auditor independence may be compromised by large fees for non-audit services by prohibiting an accounting firm from providing certain non-audit services contemporaneously with the audit. And under Title IV, both management and the accounting firm are responsible for assessing the effectiveness of a company's internal controls in deterring fraud, with severe penalties for noncompliance.

Confidence in markets should be enhanced because the law increased the quality of financial reporting and changed expectations about the behavior of both auditors and their clients. Have expectations been realized? One source of evidence on auditor behavior is the frequency of earnings restatement announcements; if the auditor has been doing its job properly we would expect to see the frequency decline. Unfortunately, this is a much widely used and abused metric: restatement announcements generally refer to financial statements that are a few years old, so we must wait at least another year or so before the restatement data truly reflects any impact of the law.

Another measure of auditor behavior is the propensity to issue adverse opinions when circumstances warrant – in other words, is the auditor giving its client a free pass or not? We have taken an initial look at the tendency of auditors to issue "going concern modified opinion reports" to financially weak companies before and after the law changed. We found that there was an increased likelihood that an adverse opinion would be issued after the law was passed, controlling for company financial characteristics. These results are consistent with previously published research that examined the effects of earlier changes in the legal environment on auditor behavior. I must stress that these are preliminary findings; there may be other as yet unidentified factors contributing to this "shift effect" and we have to see if the results generalize to samples of financially healthier companies. So far, though, the initial results are consistent with our expectations.

Turning to some direct, but admittedly soft, evidence on the impact on corporate behavior, I would like to review some highlights from a worldwide survey of over 300 executives conducted last year by the Economist Intelligence Unit that elicited views on corporate governance. The Economist Intelligence Unit is part of the same organizational structure that houses The Economist magazine; it provides business information and analysis of political and economic environments to multinational companies.

It is noteworthy that over 40 percent of the survey respondents feel that vested management interest is the single most important barrier to good corporate governance; this is precisely the source of agency problems that is addressed by the tax law changes encouraging dividend payouts.

It is both interesting and extremely encouraging that 70 percent of these international executives thought that the U.S. had done most to improve corporate governance. The results are especially impressive when compared to some of our friends overseas. For example, 16 percent thought the U.K. had made the greatest strides, while just 3 percent thought so for France.

Companies have taken a number of steps to change their governance practices: For example, 55 percent of the firms in the survey have strengthened the internal audit function, while almost half (49 percent) have improved risk management. Positive results are flowing from these changes, including a better grasp of business issues at the senior management level. From the perspective of mitigating agency problems created by vested management interests, it is most significant that 75 percent of the executives in the survey observe an increased activism among shareholders and an insistent demand for relevant information.

In summary, the U.S. economic system incurred a confidence deficit as a result of: recession, terrorism and corporate scandals. We have come back. The President's tax package helps re-direct cash flow to shareholders through increased dividends, thereby reducing agency problems and wasteful managerial decisions. Sarbanes-Oxley increased the quality of financial reporting, and changed expectations of auditor and corporate behavior. Tax and regulatory policy have joined together to promote corporate governance and efficient use of resources, significantly reducing the confidence deficit.

What can we expect from this point forward? These benefits should continue, assuming that the tax law changes remain intact. Hopeful indications are to be found in Jensen's theory of agency problems and economic research that links corporate governance to performance. The tax law changes have sharpened and clarified the differences between two paradigms: companies that signal they are addressing agency problems through their financial policies and governance procedures, and those that do not. I think we can be reasonably confident that market valuations will inevitably reflect these relative differences, helping to loosen even the most entrenched management enclaves.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 15, 2004
JS-2089

Remarks of Mark J. Warshawsky
Assistant Secretary for Economic Policy
Current Macroeconomic Activity and Conditions in the Crude Oil Market
Charlotte Economics Club
Charlotte, North Carolina

Good afternoon. I'm delighted to be here today to talk to you about the U.S. economy. I began my tenure at the Department of the Treasury as Deputy Assistant Secretary for Microeconomic Analysis, specializing in issues related to terror risk insurance, pensions and Social Security. After taking over the responsibilities of Assistant Secretary for Economic Policy a year and a half ago, I have had the opportunity to become more deeply involved in investigating the forces that shape the performance of the macro-economy. I would like to begin today by discussing my view of current economic conditions and then focus on one of the major issues influencing the outlook - oil prices and their potential impact on the economy.

Current Economic Conditions

I think that it is fair to say that the last three and a half years have been unique in our economic history. The bursting of the NASDAQ bubble and the substantial decline in stock market values in 2000, along with the resulting pullback in investment, caused an actual decline in economic activity in the third quarter of that year. By 2001, we had entered recession and its effects were compounded by the terrorist attacks of September 11. We appeared well on our way to recovery in early 2002, when growing evidence of widespread corporate malfeasance dating back to the late 1990s once again undermined business activity. Slow growth abroad provided an additional headwind. The war with Iraq further raised uncertainty in the early part of 2003.

Given this long succession of negative events, the performance of the economy has been quite remarkable. Rapid monetary policy accommodation and perhaps the most well-timed fiscal policy response in our history resulted in the smallest GDP loss of any recession in the post-World War II era. Three tax cuts in three years boosted household incomes to support consumption, offered tax relief on dividends and capital gains for stockholders, and provided large and small businesses with incentives to undertake investments in equipment. The recently enacted Working Families Tax Relief Act of 2004 will assure that families and businesses will continue to benefit from tax relief.

By summer of last year, the economy was growing strongly again and in the first quarter of this year, real GDP was 5 percent above its year-earlier level, the largest 4-quarter increase in 20 years. While North Carolina has been hard hit, we are seeing progress here. State payrolls are up nearly 63,000 so far this year and, at 5 percent, the unemployment rate is below the national average. More than 2.9 million North Carolina taxpayers and 665,000 North Carolina businesses will pay less in taxes this year because of the President's efforts.

Nationally, economic activity slowed somewhat in the second quarter of this year, although the final estimate of real GDP showed growth at a still-respectable 3.3 percent annual rate. Gross domestic purchases – the demand of U.S. households, businesses, and government – increased by an even stronger 4.2 percent, mainly reflecting strength in business and residential investment. The difference between the purchases and product figures is represented by the trade deficit, which widened further in the second quarter, exerting a drag on GDP. Although there are

signs of firming in demand for U.S. exports, slower expansion among many of our major trading partners than in the United States continues to be a factor in the faster growth of U.S. imports than exports.

The composition of economic growth has transitioned much as we had hoped. The consumer supported the economy throughout the recession. More recently, business investment has been the key driver. Real investment in equipment and software has been increasing at a double-digit pace over the last five quarters and appears on track for another strong gain in the third quarter. Investment in structures is also making a comeback, rising in three of the last five quarters. Gains in corporate profits, declining risk spreads, favorable tax incentives and greater business optimism regarding the durability of the economic expansion have supported the rise in investment. Economic profits (based on current production) have risen 19 percent over the past year. Strength has been centered in domestic nonfinancial corporations, and in the second quarter, the largest increase in economic profits was recorded by the information industry - up $23.1 billion - a sign that the tech sector is coming back.

Along with investment in capital goods, residential investment also continues to be remarkably strong. Except for a small decline in the fourth quarter of 2001, real residential investment has increased in every quarter since the end of 2000. A year ago, few expected further near-term growth. But demand has held up very well, as 30-year mortgage interest rates have remained below 6 percent, generating record-high home sales so far this year. In the latest quarter, real residential investment rose at a 16.5 percent annual rate, the second largest quarterly increase in eight years.

In the second quarter personal consumption spending slowed to only a 1.6 percent increase at an annual rate. Explanations included the fading of the boost from refinancings, the extra demand on family budgets of higher gasoline prices, and the impact of a cooler- and wetter-than-normal spring on seasonal purchases. While all of these explanations may have played a role, it now appears that the second quarter represented only a temporary pause in consumption growth. With July and August data already on the books for the third quarter and today September spending showing an impressive increase, personal spending is on track for an increase of up to 4.5 percent annual rate. A jump in unit auto sales in September appears to confirm strength in consumption through the end of the quarter.

I think it is reasonable to be optimistic about the outlook for consumption. The wages and salaries generated by new jobs are becoming the driver for personal income. Since the President's Jobs and Growth Plan went into effect in the third quarter of 2003, payroll employment growth has been revitalized. Jobs have increased for 13 straight months by a total of 1.9 million. The unemployment rate has fallen to 5.4 percent – lower than the average of each of the past three decades.

Another positive factor is that the pickup in inflation we observed early in the year appears to be subsiding. In fact, the personal consumption deflator was unchanged in the past two months. Low inflation is consistent with the phenomenal growth of productivity that we have witnessed throughout the current business cycle. Since the end of 2000 – a period that includes both recession and recovery – nonfarm productivity has risen at a 4 percent annual rate, the best performance for a three-and-a-half year period since the early 1960s.

The policies of the past three and a half years have been appropriate for the unusual circumstances we faced and have put the economy on the path to renewed expansion. But, in addition, they have helped assure strong growth in the future. Lower marginal tax rates have improved the after-tax rewards to work. They also increase the returns to innovation and risk taking, because most entrepreneurs pay individual income taxes. The cost of equity capital has been reduced through lower taxes on dividends and capital gains, thus promoting investment. A tax system that supports greater risk-taking, investment, and innovation means greater productivity and capital accumulation and ultimately a higher standard of living.

The Mid-Session Review in July projected a budget deficit for Fiscal 2004 of about $445 billion, but growth in the economy and jobs has already contributed to an improvement, with the deficit coming in at $413 billion, equivalent to about 3.5 percent of GDP. This is much below deficits in the 4.5 to 6 percent of GDP range at various times in the 1980s and 1990s. Though unwelcome, the federal budget

deficit is manageable and understandable, given the extraordinary circumstances of recent history. With continued economic growth and job creation, along with spending restraint, the President has a plan to cut the deficit in half over the next five years to less than 2 percent of GDP

The Administration is currently beginning the fall economic forecasting exercise that will underpin the fiscal year 2006 budget. As we undertake the forecasting exercise this year, we will devote particular attention to the situation in petroleum markets.

Oil Markets

The stubbornly high price of crude oil has been one of the dominant economic stories this year. Even though the oil intensity of U.S. GDP has fallen by nearly 50 percent since the first oil shock in the early 1970s, the price of oil remains a key variable in the macro outlook.

The U.S. consumes about 20 million barrels of petroleum products per day, a quarter of world oil production. But we only produce about 40 percent of the oil we consume, so we're importing about 12 mbd each day. Two-thirds of our petroleum consumption goes to transportation, and another quarter is taken up by industrial uses – with much going as raw materials for the chemicals and plastics industries.

Demand for oil rises with overall economic activity – a 1 percent increase in real GDP is usually associated with about a 0.5 percent increase in oil demand. But it does not appear that U.S. demand for oil in the short run is sensitive to the price. One recent estimate suggests that the price elasticity of demand for oil in the U.S. is -0.02 in the short run and rises to about

-0.6 in the long run (which takes about 10 years). In these estimates, the short run is surprisingly long; at least a year. The implication is that, for periods of up to a year, a rise in the price of oil increases outlays on oil almost proportionately.

From these basic facts emerge the estimates of the first round impacts from an increase in oil prices. Each $10 per barrel rise in prices increases the annual oil import bill – the "oil tax" – by about $44 billion (12 mbd times 365 days times $10), or about 0.4 percent of GDP. So what does the price experience of the last two years suggest? The price of West Texas crude averaged about $26 per barrel in 2002, about $31 in 2003, and so far this year have averaged a little more than $39. So the oil tax amounted to about $22 billion in 2003, and could rise to about $58 billion in 2004.

But of course the first round impacts don't capture all the effects or possibilities. A more thorough estimate of the real impact would include the potential crowding out of other imports in favor of oil and the differences in the propensities to spend between domestic oil consumers and producers. We also need to consider short-term multiplier effects, potential inflation effects, and financial market feedbacks. To capture these, we use estimates from simulations of macro models to assess the real effects of an oil price increase. Our work suggests that had oil prices remained at about their 2002Q2 levels (slightly more than $26 per barrel), real GDP would be about 0.5 percent higher now (about $54 billion in chained 2000 dollars) and the Consumer Price Index would be about 0.6 percent lower. While these effects are noticeable – the real GDP effect implies that growth was shaved by about 0.25 percentage point on average for the last two years – they are not overly large.

We need to point out, however, that simulation work did not capture the effects of rising oil prices on consumer and business confidence, the general level of economic uncertainty, or financial market responses. Further, the results did not account for the effects of foreign economies slowing in response to higher oil prices.

So far, we've re-established some pretty well-known ideas: (1) oil prices are important for the economy, (2) the recent oil price increases have slowed economic activity from what it otherwise would have been, and (3) oil demand is not very sensitive to price changes in the short run. The main questions are, of course, why are prices high now, and what will happen to prices in the future?

As yet, we've found neither the smoking gun that tells us why oil prices are high now, nor developed the crystal ball that will tell us what prices will do in the future. But I'd like to share some observations with you about oil markets and then raise the question of whether the price increases we've seen recently are fully justified by fundamentals.

We believe that oil market fundamentals are certainly tighter right now than they have been for many years. Spare production capacity, refining capacity, and shipping capacity are all very tight. And this is coming at a time when rapid economic growth in most parts of the world is increasing the need for oil every day.

The important question that we need to ask ourselves is – is this a temporary phenomenon, common to vigorous economic expansions where bottlenecks occur in individual sectors until enough investors recognize the need and provide the new capacity, or is this a more serious long-term phenomenon?

First, there is considerable uncertainty about even the most basic demand and supply trends. The last two years have seen an extraordinary surge in the world demand for oil even in spite of slow growth in Europe and Japan. The main story is the emergence of China as a major oil consumer. In 2002, China eclipsed Japan as the second largest oil consumer behind the U.S. Over the past 10 years, Chinese oil consumption has posted annual growth of about 7.5 percent. And this year the International Energy Agency (IEA) is putting growth in Chinese oil consumption at nearly double that rate. India, consuming less than half as much oil as China, also represents a growing force in oil markets. In 1993, these two countries accounted for just over 6 percent of global oil demand. Ten years later in 2003, that figure was nearly 11 percent.

Looking at the situation today, it is easy to see why analysts are concerned about high prices resulting from strong demand; there *is* considerable upside potential for consumption. The average person in the U.S. last year consumed about 25 barrels of oil. In China, that figure was about 1-1/2 barrels and India consumed less than a barrel per person. While nobody thinks that either China or India will rapidly approach U.S. per-capita consumption levels in the near future, it's worth noting that each barrel per year increase in per-capita oil demand raises the daily oil demand figure for China by about 3 million barrels – about a 3.5 percent increase over current world levels.

Government stockpiling in these countries could also add to demand. Both countries have expressed the intention to develop government-controlled stockpiles of oil much like the strategic petroleum reserve (SPR) in the U.S. The market does not know how big these reserves will be or how quickly – or even if – they will be filled. But the uncertainty surrounding their implementation probably has effect, at least temporarily, on world oil demand now and sometime through the near future.

In developed countries, the concern is not so much that oil demand will be rising per unit of GDP, but rather that a sustained expansion – rising GDP – in the U.S., Europe, and Japan together will put additional demand pressure on prices. Japan's economic troubles have crimped its oil consumption growth. The country has actually seen its oil demand shrink in three out of the past four years. Oil consumption in the European Union grew by just 0.5 percent in 2003. In the U.S., oil demand grew by 1.5 percent last year. Now the potential in oil markets is that Japan, Europe, and the U.S. will simultaneously accelerate, which, in the context of rising demand in China will cause a sharp jump in world demand. (Each 1 percentage point increase in growth for these countries will tend to raise world oil demand by 200,000 barrels per day.)

Along with uncertainty about demand, there are also significant uncertainties about supply. Now, geopolitical uncertainty about supply has increased since September 11. The probability of a terrorist-induced supply disruption appears higher now than, say, four years ago, when analysts may have not have been paying as much attention to the possibilities as they are now.

But even beyond the probabilities of disruption, there is considerable uncertainty about the longer-term outlook for oil supply. There is, for example, apparently serious debate about when global oil production might reach a peak, and, by implication, when production will decline. The topic was important enough that, in 2003, the editor of the Oil and Gas Journal dedicated a series of six articles to the

topic, and these sparked so many comments that he published another series of articles in the spring and summer of this year.

This debate began in the mid-1950s, when geophysicist M. King Hubbert made his prediction that U.S. oil production would peak around 1970. He turned out to be about right. Some have used his techniques to argue that we may have already passed the world oil production peak (we're just temporarily pumping faster than could have been predicted).

Forecasts of this type are typically grounded in geology, using variables such as the amount of ultimately recoverable oil reserves globally and oil field depletion rates. Economists see another side to this debate, which is really about physical versus economic scarcity. In general, economists feel that even if the Hubbert-type analyses are correct, market forces and technological progress can compensate, albeit probably at an initially higher price, by making new energy sources such as unconventional oil – such as extra-heavy crude and bitumen and alternative energy sources and conservation economically viable. The issues are when will these transitions occur and how much more expensive might energy and energy related products become.

By training, of course, I tend to take the economist's perspective. But the fact that a group of knowledgeable observers are concerned about long-term supply, coming in the context of potential large demand increases, has apparently given oil markets an upward shove.

Evidence from the futures markets suggests private analysts have this picture of uncertainty in oil demand and supply – with the greatest risks on the upside for demand and the downside for supply – firmly in mind. To review, the typical oil futures curve is "backwardated," where the longer dated futures price is almost always lower than the spot or shorter-dated futures price. If there is a shock – like a hurricane – that temporarily disrupts oil supply, we would normally expect the futures curve to steepen further. That is, we would expect the short-dated futures price to rise due to the shock, but the longer-dated prices to remain about where they were before the shock.

But that isn't what is going on in futures markets. In fact, the futures prices are higher across all futures dates. For example, at the beginning of this week, the six-month futures price was trading at a discount of just over 5 percent to the near-month contract. Prices across average futures curves in October 2000 and October 2002 were obviously lower, but the curves themselves were slightly steeper. The upward shift in prices along the whole futures curve suggests private analysts believe that much of each day's rise in oil prices is permanent.

Now, economists are trained to be skeptics, and all of the discussion about permanent increases in oil prices, oil suppliers running dry, and continued extraordinary increases in demand have reminded me of the discussion about another market, which, not too long ago, also seemed to promise continued price increases as far as the eye could see (even as high as 36,000!). In the event, the inevitable demand increases turned south, the market sagged, and we were left with an "excess" supply. Could the same thing happen (and be happening) in oil markets?

There's at least some evidence to suggest that it could. We recently looked through the economics literature to find empirical work that would help us estimate the "fundamental" price of oil, that is, the oil price that might be observed if there were no "geopolitical risk" premiums and, over the longer term, if investment and new supply respond to market incentives. One equation we found related OECD inventory levels to the price of West Texas Intermediate. Our re-estimate of that equation suggested that, based on the actual inventory levels through the early part of 2004, the underlying price of WTI had a two standard error range of up to $38 per barrel. Inventories have tightened somewhat since early 2004, but still leaves a premium at current prices. Some analysts gauge the "fundamental" level of crude oil prices by comparing them with the price of other fuels, such as natural gas. One rule of thumb commonly cited is that the price of West Texas Intermediate (WTI) oil, in dollars per barrel, should be about eight times the Henry Hub natural gas spot price in dollars per million Btu. Using that rule, natural gas spot prices in early October implied a crude oil price of about $47 per barrel – about $6 per barrel below the then current levels.

Some of my feeling about at least part of the recent oil price run-up being overdone comes from watching the market media and trading reactions to the weekly oil inventory statistics released by the DOE's Energy Information Administration. Over the past several weeks, each weekly inventory report was followed by an increase in oil prices in world markets both in the spot and short-dated end of the futures market and the long-dated end of the futures market. Now the U.S. inventory situation is important but U.S. inventories represent about 40 percent of total OECD inventories, and about 20 days of daily world production. I've been surprised that the response to U.S. inventories has been so strong, given that demand and supply conditions in other parts of the world might be exerting an even stronger pressure (either up or down) on prices. The price increase following Hurricane Ivan which seriously affected U.S. production in the Gulf of Mexico is a case in point. While Ivan's effect was real, it was exaggerated because markets focus on the U.S. market where statistics are much better and much timelier than statistics in other industrialized countries. Furthermore, there may be a "push me – pull you" ratcheting effect going on here – as prices increase, inventory holders economize in the belief that there will be a fall, while market participants observe the stinginess in inventories and bid up prices, and so on.

The simple reason U.S. inventory data has this effect is, of course, because the U.S. produces good data quickly, and the markets are using the U.S. data in the place of full information about other developments. That's alright if U.S. inventories are a good indicator of world market tightness, but if there are conditions that are special to the U.S. – like hurricanes or a shift in the demand and supplies of crudes that the U.S. uses mostly – then U.S. conditions may be giving the wrong signal to market participants. The markets may then be bidding up the longer end of the futures curve for world oil prices on the basis of limited information.

There's some reason to believe that is happening. Despite our focus on "the" price of oil, there are, in reality, many types of oil. It is possible that shortages of one type of desired oil (light, sweet is especially good for auto and jet fuels, which is most used in the U.S.) are driving up benchmark crudes relative to others. So the relative changes in the demand among types of oil may be getting confused with a general increase in the demand for oil. The price spread between West Texas Intermediate light sweet crude and Saudi Arabian heavy sour was more than $13 at the beginning of October, a record high, and roughly twice the average price spread seen last year. So while the nominal prices for both grades of crude were at record highs, the record high for the U.S. benchmark WTI was much higher relative to less desirable crudes. And the wide price spread suggests that it may be inappropriate to characterize the "world" oil price on the basis of our old standby, West Texas Intermediate.

So, if I had to summarize my story about oil markets, I would say that current high prices appear to be the result of temporary tightness in oil markets and fears about supplies becoming even tighter. Other, more mundane concerns that the market would ordinarily shrug off – unexpected increases in oil demand, concerns about long-term oil supply, transitory, but serious weather-related events – are affecting the market over and above the underlying terrorist concerns, and so have a multiplied effect on prices. So far we've seen the upside potential for price movements. But there's no reason to believe that the multiplier effect works only on the upside, and we have some reason to believe that WTI prices are high relative to some measures of the fundamentals. If and when the oil price re-establishes the "normal" levels, and there is relief from the series of shocks, we could, just as we did in equity markets, observe a sharp, sudden, and large decline in oil prices. Such a decline would be welcome, and produce a noticeable gain in GDP and jobs.

In the short run, our policy tool is the Strategic Petroleum Reserve, and our policy with respect to the release of the SPR is clear: it is not going to be used as a general price stabilizer, and will only be used in a substantial way in the interests of national security. (Our recent SPR releases were very small, and intended to offset the very specific dislocations associated with the hurricanes).

In the intermediate run, it would be very useful to have a better data collection and reporting framework for this key sector. If indeed part of the oil price surge is related to a simple lack of data concerning the current state of demand and supply, then it seems that we could improve market efficiency by improving market information – probably a big payoff for a relatively small investment in data collection. This would help ameliorate the complication from an over-reliance by market participants on U.S. inventory statistics. In fact, the recent Group of Seven (G-7) Communiqué strongly supports work by the IEA to work on oil data

transparency.

In the longer run, first and foremost, Congress needs to pass the President's energy plan, which would encourage domestic energy production and conservation. On a fundamental level, the key to maintaining a sustainable long-run trajectory for oil prices is to expand domestic supply. This is one of the goals of the President's energy initiatives and the Administration is committed to actions like increasing the use of domestically produced ethanol and biodiesel, increasing fossil fuel production, and supporting advanced technology research and development in alternative fuels like hydrogen and nuclear fusion.

In conclusion, the macroeconomy is doing well by any standard, but remarkably well considering the headwinds it has faced in the last three years. While there is more to do, we're encouraged that our tax cuts have helped keep the economy afloat through the recession, stimulated the economy to rapid growth in the last four quarters, and have set the stage for future growth.

Despite good economic performance, high oil prices are slowing our progress. As I've discussed, our strategy of improving domestic supplies and reducing the uncertainty premium by winning the war on terror will ultimately pay dividends.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

October 21, 2004
JS-2090

Remarks of Mark J. Warshawsky
Assistant Secretary for Economic Policy
Social Security & Medicare
Dartmouth College
Hanover, New Hampshire

Thank you for the kind introduction. It is both an honor and a pleasure to be invited to give a talk at this great college. Today I will cover two very important topics, Social Security and Medicare, that either directly or indirectly affects everyone in this room. Although some of you may already be participating or may be pondering participation in these program as beneficiaries in the not-too-distant future, I suspect that most of you are (or should be) interested in Social Security and Medicare as major public policy issues and as programs that could have a significant effect on your long-range financial planning and your tax bills.

SOCIAL SECURITY

Evolution and Size

The Social Security system began in the aftermath of the Great Depression with the passage of the 1935 Social Security Act that established the "Old-Age" portion of the program. Initially, the program was intended to provide cash benefits to persons age 65 and over who had made payroll contributions to the system with benefits based on the value of those contributions. Contributions would begin in 1937 and benefit payments would start about five years later. An accumulating trust fund would help pay benefits as the number of beneficiaries increased. Even before the first benefit was paid, however, benefit provisions were expanded in 1939 to include spouses and survivors insurance (thus, the OASI system), the benefit formula was made more generous, and scheduled tax increases were delayed. Before 1972, benefit increases were made on an ad hoc basis and four double-digit increases occurred between 1968 and 1972 (20 percent in 1972). Though an accumulating trust fund was envisioned, the system has operated primarily on a pay-as-you-go basis with a modest trust fund having developed in recent years. Therefore, tax increases have been implemented to ensure the continuation of annual benefit payments. But, as we discuss below, the increases fell well short of what would be needed to pay lifetime benefits to a growing and longer-living beneficiary population.

Disability benefits were added in 1956, giving us the present-day OASDI system. At the end of 2003, the Social Security program (OASDI) paid about $470 billion in benefits to about 47 million beneficiaries, making it the largest federal transfer program in the United States.

Demographic Developments

In 1950, there were 16 workers to support every one beneficiary of Social Security. Today, there are only 3.3 workers supporting every Social Security beneficiary. By the time our youngest workers – like the students in this audience – and others now entering the workforce – turn 65, there will only be 2 workers supporting each beneficiary.

Moreover, in 1950, men and women age 65 could expect to live, on average, 12.8 and 15.1 more years, respectively. In the year 2000, life expectancy at age 65 had increased to 15.7 for men and to 19.0 for women. By 2030, these conditional life expectancies are projected to increase to 17.7 for men and 20.6 for women. Longer

lives are clearly a good thing but they also mean a longer period over which Social Security, and Medicare, benefits must be paid.

Financing Problems

As a result of these demographic changes the current system will not be able to afford to pay the benefits scheduled for our children and grandchildren without enormous payroll tax increases. The Social Security payroll tax, which was 3 percent in 1950, is now 12.4 percent. The Social Security actuaries calculate that, if the system were to continue to operate on a pay-as-you-go basis and pay currently-scheduled benefits, the payroll tax would have to rise gradually, but steadily, to more than 19 percent before the end of the next 75 years.

But financial pressure on the federal budget (hence on taxpayers) begins much earlier. Tax revenue (payroll taxes plus benefit taxes) is expected to fall short of benefit payments less than 15 years from now, in 2018. Under the current Social Security financing structure, this growing annual revenue gap will be made up from federal general revenues for another 24 years. After 2042 the authorization to fill the gap from general revenues ends, the trust fund is exhausted, and, in the absence of legislation, full benefit payments cannot be made after that point.

The important point is that the Social Security system is significantly under funded – future scheduled revenue will be inadequate to fully pay scheduled benefits. The 2004 Report of the Social Security Trustees estimates that, over the next 75 years, the present value of Social Security's deficit, the unfunded obligation, is about $3.7 trillion. For perspective, this deficit could be eliminated if payroll taxes were raised immediately by 1.9 percentage points to 14.3 percent (and a large Trust Fund would be accumulated) or if all current and future benefits were reduced by 13 percent.

Yet, 75 years, though a seemingly long time, does not capture fully the financial status of the Social Security program. In fact, no fixed finite period will completely embody the financial status of the program because people pay into the system when they are young and receive benefits when they are older and an arbitrary cutoff will miss some taxes and, especially, benefits to be paid. So estimates even over the long period of 75 years include a lot of payroll revenue from future workers who will not begin to receive benefits until after the 75-year horizon. In order to get a complete picture of Social Security's permanent financial problem, the time horizon for calculating income and outgo must be extended to the indefinite future. Such a calculation is provided in the 2004 Trustees Report which estimates that, for the entire past and future of the program, the present value of scheduled benefits exceeds the present value of scheduled tax income by $10.4 trillion. This is the financing gap that program reforms must ultimately close. To put this in perspective, eliminating the permanent deficit would require an immediate and permanent increase in the payroll tax rate of 3.5 percentage points to 15.9 percent (and the accumulation of a massive Trust Fund). Alternatively, all current and future benefits would have to be reduced immediately by 22 percent.

Intergenerational Equity – Which Cohorts Pay?

These results make clear that the Social Security system is not financially viable over the long term – it must be fixed, so doing nothing is not an option. How to close the permanent financing gap raises difficult questions over how the burden should be shared across generations. In this context, it is important to recognize that the large unfunded obligations in the system ($10.4 trillion) are in large part the consequence of the past system generosity. From the beginning, the Social Security program made benefit promises to generations that far exceeded the taxes they would pay over their lifetimes. Of course, past generations are past – they cannot contribute to reducing the unfunded obligations. As a consequence, closing the financing gap falls to future generations and this leads to the obvious but very important point that the longer reform is delayed the greater the number of future generations that also become past generations that cannot contribute – that is, delay means a greater burden on the youth of today. Sharing the responsibility fairly of closing the permanent financial gap across generations is one important reason that reform should not be delayed.

Fixing the System – Goals for Reform

Fortunately, this untenable situation is fixable. President Bush has said that "Social security is one of the greatest achievements of the American government, and one of the deepest commitments to the American people." The President supports social security reform that increases the power of the individual, does not increase the tax burden, and provides economic opportunity for more Americans. The President has issued guiding principles for reforming Social Security.

One very important principle is that seniors at or near retirement should be protected from benefit cuts, and that payroll taxes should not be increased.

Another principle is that personal retirement accounts (PRAs) should be made available for younger workers to build a nest egg for retirement that they own and control, and which they can pass on to their children and grandchildren.

Additionally, we must pursue the goal of a permanently sustainable system, eschewing reforms that treat only symptoms and halfway measures.

Personal Retirement Accounts

I would like to focus on the advantages of PRAs. PRAs provide individual control, ownership, and are an important vehicle for pre-funding more of our Social Security benefits without encouraging more government spending. PRAs also offer individuals the opportunity to receive the benefits of investing in the markets. Individual control and ownership means that people would be free to pass the value of accounts to their heirs.

PRAs would also provide many individuals access to capital markets. Particularly people with low income or very little to spare typically have not participated as investors in the securities markets. With PRAs, all workers would have this chance with taxes that currently are sent to government accounts. At the same time, a PRA system should be easy to understand and easy to participate in – without complicated buying and selling features.

The appeal that PRAs have for individuals also serves as an impetus for Social Security reform. Because most people like the idea of ownership and control over their savings accounts, as voters they are more likely to support a reform of this type.

Perhaps most importantly, the retirement security of our current young and future workers depends on PRAs. They allow individuals to save now to help fund their retirement incomes. In principle, that could be done with reforms that save tax revenues in the Social Security Trust Fund. But such "saving" would almost certainly be undone by political pressures to increase government spending and hence produce larger deficits outside of Social Security. The only way to truly save for our retirement and give our children and grandchildren a fair deal is with personal accounts.

PRAs form the basis of a retirement system that gives workers more responsibility for their own retirement saving and affords participants an opportunity to pass wealth to family members in the event of premature death. PRAs also:

- Benefit divorced persons who currently do not receive Social Security spousal benefits unless they remain married ten years;
- Enable workers to choose how to allocate their retirement saving and diversify their investments over a range of secure bonds and stocks;
- Do not require frequent adjustments to the larger Social Security system to remain financially sound. As life expectancy increases, adjusting the current system to achieve actuarially fair outcomes is subject to difficult political debate; personal accounts avoid contentious debate and rely on individuals themselves to adjust to the lengthening of life; and
- Provide incentives to work that are larger and more transparent than in the current system – in a personal account, every dollar contributed can go toward earning a retirement benefit, whereas in the current system, no contributions toward earning retirement benefits are counted until the individual has worked 10 years.

Establishing Personal Retirement Accounts

Setting up a new system of personal retirement accounts will require careful planning; the policy options that are chosen could have a significant affect on administrative costs. Questions that a new system will need to address include:

- How would a PRA system be governed?
- To avoid political pressures, an independent board modeled after Federal Reserve Board or the federal employee Thrift Saving Program (TSP) are possibilities.
- To what degree should recordkeeping be centralized?
- The TSP model would have a central administrator that could be a quasi-government agency or a company.
- How should PRA contributions be channeled to investment managers?
- To what extent should investment options be limited?
- Particularly at beginning, choices could be limited to "safe" index or mutual funds.

The issues will need to be worked through very carefully as such costs are very important to net returns to PRAs.

The U.S. Social Security system needs to be modernized. Social Security was designed in 1935 amid a very different economic environment. There was a perception then that there were too many workers, so the government wanted to encourage retirement. There was concern then that Americans were saving too much money and not spending enough. Today we are a society with entirely different needs and concerns. We need to continue to make use of the talents of our most productive workers. We need to save more money and we have an abundance of sensible investment opportunities. This is why we have proposed personal retirement accounts. This is the only way to truly save for our retirement and give our children and grandchildren a fair deal.

MEDICARE

The Medicare program began under President Johnson in 1966. The program has grown remarkably since the beginning. In 1967, total expenditures fell just short of $5 billion; today, the federal government spends around $300 billion for Medicare. However, the basic structure of the program and its financing have changed little over the time period.

Structure and Financing

Medicare provides almost universal health insurance coverage to senior citizens and certain disabled people under 65. The program has two separate trust funds: the Hospital Insurance (HI, Medicare Part A) and Supplementary Medical Insurance (SMI, Medicare Parts B and D) Trust Funds. HI pays for inpatient acute hospital services and major alternatives to hospitals (skilled nursing services, for example). SMI pays for hospital outpatient services, physician services, and assorted other services and products through the Part B account and, beginning in 2006, will pay for prescription drugs through the Part D account. Though the events that trigger benefit payments are quite similar, HI and SMI have very different earmarked financing structures. Like OASDI, HI is financed primarily by payroll contributions. Employers and employees each pay 1.45 percent of earnings, while self-employed workers pay 2.9 percent of their net income. Other income to the HI fund includes a small amount of premium income from voluntary enrollees, a portion of the federal income taxes that beneficiaries pay on Social Security benefits, and interest credited on the U. S. Treasury securities held in a relatively small HI Trust Fund.

For SMI, transfers from the general fund of the Treasury represent the largest source of income, covering about 75 percent of program costs for Part B (and Part D beginning in 2006). Beneficiaries pay monthly premiums that finance about 25 percent of costs.

Financial Outlook

In addition to the financial burdens imposed by an aging society described above, the Medicare program also faces the prospect of continued fast growth of health care costs. The combined forces of high health care cost growth and changing demographics makes the Medicare program in much worse shape financially than Social Security. For the HI program, expenditures are expected to exceed

noninterest income this year. That is, the HI Trust Fund is paying out more than it is taking in and is expected to be exhausted by 2019. The 75-year actuarial balance for HI is -3.12 percent of taxable payroll, indicating that the program could be brought into balance for 75 years if payroll taxes were increased by 3.12 percentage points.

There is no comparable actuarial exercise done for the SMI trust fund, but the Medicare actuaries do calculate various estimates of the financial burden created by the entire program. The 2004 Medicare Trustees Report calculates the total unfunded obligations for the Medicare program --that is, the projected expenditures that do not have a dedicated source of revenue--over the infinite horizon to be $61.6 trillion. Put another way, we would have to devote an additional 6.8 percent of GDP every year, forever, to the program to pay off these obligations. Each year we postpone action, though, the problem gets worse.

Unlike with Social Security, the Medicare program does not promise a fixed dollar amount in benefits; rather, it promises comprehensive health insurance for care that essentially meets the standard of those who are privately insured. Thus, the growth rate of health care costs, which is highly volatile, is a major factor in determining the obligations of the Medicare program. The Congressional Budget Office, for one, has projected federal government costs for Medicare under various health care cost growth rate assumptions. Currently, Medicare amounts to about 2.5 percent of GDP. If the per enrollee costs grow at the rate of GDP plus one percentage point, Medicare will, by 2050, comprise 8.3 percent of GDP. On the other hand, if it grows exactly at the rate of the economy, it will only amount to only 4.9 percent of GDP by 2050. Thus, a change in the rate of growth of this program by one percentage point can determine whether the entire economy must devote over 3 percentage points more of its resources to financing the federal government's portion of the program 46 years from now.

Defining Magnitude of Waste in Health Care

Under current reasonable assumptions of projected program cost increases, as in Social Security, these trends are not sustainable. Given the fact that Medicare costs reflect society-wide health care costs, the best approaches to slow the rate of growth of Medicare expenditures are by trying to control the rate of growth of overall health care costs, as well as by specific Medicare program changes.

Some of the most influential research on identifying ways to help us slow the rate of growth of the program is taking place right here at Dartmouth, led by faculty members John Wennberg, Elliott Fisher, and Jonathan Skinner and others. They have done some fascinating research on how expenditures, health care utilization, and outcomes differ for Medicare beneficiaries in different geographic regions of the United States. What they have found is that there are very large differences in regional health expenditures that cannot be explained by differences in illness. Furthermore, Medicare beneficiaries in higher spending areas do not experience better outcomes or satisfaction across a wide range of illnesses than those in lower spending areas. Nor can the differences be explained by area cost-of-living variations. So, how do they explain differences across areas? What they find is that there are huge differences in what they call "supply-sensitive" care, or more frequent use of resources that are not inherently correlated with better outcomes. These include things like more frequent use of the hospital as a site of care, more frequent physician visits, more frequent use of medical subspecialists, and more frequent diagnostic testing and minor procedures.

So, what is the magnitude of these spending differences that seem to have no impact on quality, satisfaction, or outcomes? The researchers estimate that if expenditure levels in all areas of the country were brought down to the lowest decile of Medicare spending, total spending on the Medicare program would fall by 29 percent. In 2004, that amounts to a savings of $85 billion. Now the lowest decile may be too far to go as the standard, because it includes rural areas where we do see access problems, but their results are certainly robust to this refinement.

A few years ago, RAND researchers catalogued studies of waste in the overall health care sector -- many of the studies were smaller in scale than the Dartmouth study -- but reached a similar conclusion. Taking a simple average of those studies, the RAND researchers found that approximately 30 percent of acute care is contraindicated, that is, care that is not recommended. This number, you'll note, is remarkably similar to the 29 percent of wasted medical expenditures that the

Dartmouth researchers arrived at. The studies that the RAND researchers examined found high rates of inappropriate hysterectomies, high rates of inappropriate antibiotic prescribing, and inappropriate prescribing of tranquilizers for patients with depression. Furthermore, the authors note that oftentimes patients fail to get recommended care, which could increase expenditures as a result of complications in the future.

All of this suggests that waste and poor quality is not a Medicare-specific problem, but a problem in the health care sector more generally. The question then is, why does the health care system allow so many people to get inappropriate or unnecessary care, and can public policy address this problem, reducing unnecessary or harmful care without reducing proper and due care? There would be many benefits stemming from such an achievement, one of which is the impact on the federal budget. Reducing Medicare expenditures by 30 percent would go a long way towards shoring up the solvency of the Medicare program.

Reasons for Waste/Poor Quality and Policy Solutions

Poor Information. One reason why there is such poor quality in health care is that there is a true lack of understanding of what quality is, and how to get it. From the patient perspective, patients have very little information on how to judge doctors, hospitals, and different medical treatments. People have far more objective evidence to help them choose a digital camera than they do to help them choose a doctor or hospital.

But patients aren't the only ones lacking the information necessary to make wise health care decisions. Providers, too, often lack information on the relative merits of competing treatments. For instance, how do they decide whether to prescribe Lipitor or Zocor to a patient with high cholesterol? There is very little research done comparing the relative effectiveness of treatments. Once a drug or device is approved, doctors are left with little besides personal experience about how to incorporate the new treatment into their medical practice. Researchers find very different rates around the country for a variety of treatments. For instance, there is a six fold variation in the incidence of back surgery in different parts of the country. Also, there are huge variations in bypass surgery rates. This suggests that the culture of medicine varies widely in different parts of the country, even though, ideally, we'd like to see proper care delivered based on objective evidence considering each patient's situation. Such decision-making should lead to more uniform rates of treatment around the country, but more importantly, more appropriate treatment and less wasteful care.

The Medicare Modernization Act of 2003, best known for the prescription drug benefit, has a couple of provisions designed to help patients and providers better understand their health care options. For doctors, the law called for the Agency for Health Care Research and Quality to devote $50 million in 2004 to sponsor research that addresses the information gaps on the clinical effectiveness and appropriateness of specified health services and treatments. There is also a provision that will require hospitals, if they want to receive their full payment for furnishing Medicare services, to submit 10 hospital quality measures. These measures, once collected, will be made public, thus granting consumers objective quality information, which they can use to make informed decisions about where to seek care.

Lack of payment incentives to reward quality. It's reasonable to ask why we face such a lack of information about quality and efficiency, and thus the spread of poor quality and inefficient care, when health care is both so important and so expensive. Well, the fact is, quality and efficiency are poorly rewarded in the health care system. There are two main reasons for this: the first is moral hazard among consumers, and the second is an unusual reimbursement system for providers.

Moral hazard. A potentially serious problem in the health insurance market is the effect insurance can have on behavior, a problem referred to as moral hazard. By lowering the net out-of-pocket price (but not the total price), health insurance induces people to use medical care beyond the point at which the marginal benefit of additional care to them is equal to its true marginal cost. While health insurance coverage is extremely important, and everyone should be protected from catastrophic expenditures, health insurance has taken on an additional function: prepaying for routine expenses. A quick look at data over the last 40 years or so reveals a major shift in how health care is financed. The out-of-pocket share of

personal health care expenditures in this country was 55 percent in 1960. By 2002, that had fallen to below 16 percent. Government and private insurers make up the rest of the expenditures. Accordingly, on average, consumers have to pay only 16 cents for every dollar of care they receive. This fosters substantial moral hazard, and health care providers are happy to oblige the consumers. Thus, we see large numbers of diagnostic tests performed on people, even with a tiny expectation of finding anything amiss, and drugs being prescribed that are unlikely to effectively treat an individual's illness.

HSAs reduce moral hazard. The Medicare Modernization Act, enacted last year, included a provision designed to weaken the incentives for moral hazard by creating Health Savings Accounts (HSAs). These accounts allow individuals under the age of 65 who purchase or have a high-deductible health insurance policy to deposit money in an HSA tax-free. They can withdraw money from this account, tax-free, to pay for a wide range of qualified health expenses. Employers can also contribute to this account. Funds can be rolled over year after year and accumulate interest tax free, to be used when the individual encounters health expenses. The result is that, for people with high-deductible health plans and HSAs, there is no longer a tax preference for consuming care covered by insurance versus care paid for out-of-pocket. This reduces the moral hazard problem and makes consumers more demanding in terms of efficient care. And while HSAs are not part of the Medicare program, it is reasonable to believe that changes in care prompted by HSAs will permeate the entire health care system. Thus, when patients start to challenge doctors who prescribe an antibiotic for a viral infection, that doctor will likely change his practice for all patients.

Indeed, the intuition behind the policy motivation for HSAs is supported by rigorous academic work. The Rand Corporation conducted a "Health Insurance Experiment" from 1974 through 1982. The experiment measured both use and health outcomes in populations carefully selected to be representative of those under the age of 65. Participants were enrolled in a range of insurance plans requiring different levels of co-payment for medical care, from 0 to 95 percent (with maximum dollar out-of-pocket expenditures set at $1,000). The researchers found that those who paid nothing used 40 percent more services than those required to pay a high deductible, but the effect on the health status of the average person was negligible. In addition, participants who were assigned at random to a well-established HMO had 39 percent fewer hospital admissions and 28 percent lower estimated expenditures than those in the fee-for-service system, again with no measurable effect on the health of the average person. The increase in inappropriate care from the zero deductible plans actually had negative health consequences to participants.

But in order for patients to be able to make informed decisions about their care, they have to be more knowledgeable about the choices they face. That's why it is important that quality information collection and dissemination be pursued. And as more individuals realize these choices are not trivial, they will begin to demand information about their choices, and we should see these efforts accelerate.

Utilization is basis of payment, not quality or efficiency. We also see that, at the provider level, incentives to provide high quality and efficient care could be made much stronger. Oddly enough, in health care, outcomes are almost never rewarded. So, a doctor will be paid for treating a diabetic who hasn't regulated his blood sugar and shows up in the hospital in a diabetic coma, but he will be paid much less for making sure that the diabetic keeps his blood sugar under control. In health care, utilization is the basis for payment. And while it would be incorrect to say that doctors keep patients sick to increase their incomes, it is difficult to expect doctors to act repeatedly against their own economic interest. But in this age of high rates of chronic disease, such as diabetes and high blood pressure, it is especially important that people get the right preventive care to keep them from having costly acute episodes. The Medicare program has traditionally not done a good job of creating incentives to make sure that people receive proper care. In Medicare, 88 percent of enrollees are in the government indemnity plan. While those people have a nearly unlimited choice of provider, it also means that no one is internalizing the cost of their care and there is very little coordination of providers, two potentially dangerous traits for a chronically ill patient.

The Medicare Modernization Act strengthens the managed care program in Medicare to improve providers' incentives to provide appropriate care. Basically, if an individual enrolls in a managed care plan that costs less than it would have cost the government to care for him, the savings is shared between the individual and

the government. So, a managed care plan, to be competitive, will want to make sure their contracted doctors and hospitals are providing the appropriate care, encouraging them to reduce care. Also, because the managed care plan must bear the risk, it will want to ensure that its chronically ill enrollees are receiving proper preventive care. What's more, because the government payments to plans are risk-adjusted, incentives by the plan to shun chronically ill will be substantially weakened, because they will be paid more for taking on predictably higher-cost cases. And as always, if an individual is unhappy with the care he is receiving in the plan, he will always have the option of returning to the traditional government plan. Policies like these will help to reduce waste in the health care sector. Finally, the MMA establishes a six-year comparative cost adjustment demonstration program beginning in 2010 in which the concept of premium support would be applied in a limited number of areas. Enrollees in plans with premiums below the average would receive premium reductions and those in plans costing more than the average would pay the difference.

But the issue of quality in particular deserves mention. There are very few rewards for providing excellent care. Medicare has a demonstration program with Premier hospitals, a network of not-for-profit hospitals, to move us towards a system where quality is explicitly recognized. The Medicare program is collecting information on various measures of quality from each of the 278 hospitals in the study. Those who score among the highest in the group will receive a small increase in reimbursement. Eventually, those who score among the lowest will actually receive a small penalty in reimbursement. The difficulties in moving to a system like this include finding good measures of quality and the ability of providers to actually collect such information. But those barriers are being reduced, as we see hospitals collecting solid quality information as part of the Medicare Modernization Act. The more quality information we have, the more we will be able to hold providers accountable for the care they provide.

Conclusion

I hope I have succeeded today in impressing upon you the urgency of fixing the Social Security and Medicare programs. Even though most of you are decades away from receiving the benefits of the two programs, each year that passes without reform increases your burden in having to fix the financing gap. But by making the right decisions now, we can secure the long-term strength of these vital programs.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 8, 2004
JS-2091

Statement of Treasury Secretary John W. Snow on the Departure of Under Secretary for Domestic Finance Brian C. Roseboro

"Brian Roseboro has shown outstanding leadership within Treasury and the Administration for over three years. He served the President with distinction both as the Assistant Secretary of the Treasury for Financial Markets and, most recently, as Under Secretary of the Treasury for Domestic Finance.

"In his role, Mr. Roseboro advised me on all aspects of domestic finance and his counsel was always valued. His experience and insight will be missed, and I wish him the best in his future endeavors. I deeply appreciate the wisdom and dedication that he brought to his work here; his country was fortunate to benefit from his efforts as a public servant."

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 8, 2004
js-2092

Statement by Deputy Secretary Bodman on the Treasury's Iftaar

"Assalamualaikum and warm Ramadan greetings. I was honored tonight to have welcomed a group of Ambassadors and distinguished guests to the Treasury Department during the holy month of Ramadan.

"According to Muslim teachings, the Holy Quran "was sent down from heaven, a guidance unto men, a declaration of direction, and a means of Salvation" during the month of Ramadan. This is a time of worship, contemplation, prayer and fasting. And, in celebrating tonight's Iftaar, I want to remind the Muslim community that America stands with you - both here in the United States and around the world.

"We gathered this evening in the spirit of peace, cooperation and charity. In this holy month of Ramadan, we are reminded of the generosity of Muslims of good faith. Faithful Muslims, inspired to lead lives of honesty, integrity and compassion, have enriched the lives of countless people around the globe through their charity. So tonight, we honored the many good deeds and generosity of the Muslim people.

"The ethos and sanctity of charity is fundamental to Islam, as it is to all great religions. And so during Ramadan and always, let us come together, regardless of faith, and work side-by-side to brighten the future and better our world.

"I want to thank our guests for having taken the time tonight during this sacred month to celebrate with us at the Treasury Department. Ramadan Mubarak," said Deputy Secretary Bodman.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 9, 2004
JS-2093

Iannicola Keynotes Inaugural Montana Financial Education Conference

Treasury's Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr. today participated in the Montana Financial Education Coalition's inaugural conference, Financial Education...An Opportunity for Change, in Helena, Montana. Iannicola commended the Montana Financial Education Coalition for its efforts to expand and enhance financial education throughout Montana.

"Recognition of a need is the first step toward meeting it. President Bush recognized the national need for financial education when he set up the Treasury's Office of Financial Education in 2002. Shortly thereafter, leaders in the Montana financial and non-profit communities saw the same need and formed the Montana Financial Education Coalition," Iannicola said. "Through this statewide coalition, Montana's adults and kids are becoming empowered with the financial skills and knowledge to improve their lives and secure their futures."

The conference was attended by representatives from the Montana State University Extension Service, AARP, Jump$tart Coalition for Personal Financial Literacy, Federal Reserve Bank of Minneapolis, Montana Credit Unions for Community Development, and Consumer Credit Counseling Service of Montana, among others. While in Helena, Iannicola also taught a personal finance class to fifth graders at Hawthorne Elementary.

Established in 2003, the Montana Financial Education Coalition seeks to improve the personal financial knowledge and decision-making ability of Montana citizens by promoting public awareness of the need for personal financial education.

The Department of the Treasury is a leader in promoting financial education. Treasury established the Office of Financial Education in May of 2002. The Office works to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. The Office also coordinates the efforts of the Financial Literacy and Education Commission, a group chaired by the Secretary of Treasury and composed of representatives from 20 federal departments, agencies and commissions, which works to improve financial literacy and education for people throughout the United States. For more information about the Office of Financial Education visit: www.treas.gov/financialeducation.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 10, 2004
JS-2094

Treasury and IRS Issue Proposed Regulations on Phased Retirement

The Treasury Department and IRS issued proposed regulations permitting private pension plans to begin pension payments to employees as part of a phased retirement program. The regulations would allow employees who are age 59 ½ to receive a pro rata portion of their pension annuity to the extent they choose to reduce their work as part of a bona fide phased retirement program.

"These regulations are an important step to removing an unnecessary barrier to the implementation of programs that allow employers to retain the services of older workers who want to phase down their work in preparation for full retirement," said Greg Jenner, Treasury's Acting Assistant Secretary for Tax Policy. "Phased retirement permits an employer to retain the services of an experienced employee, while also providing the employee with the opportunity to continue active employment at a level that also allows greater flexibility and time away from work. People are living longer, healthier lives, so that we need to encourage programs which not only reduce the risk that individuals may outlive their retirement savings, but also retain this valuable and productive part of our workforce."

IRS Chief Counsel Don Korb also stated "I support this project both because it reflects forward-looking thinking about how our income tax rules can affect the workforce generally and also because it is sensitive to the public recommendations we received since we asked for comments in 2002 about specific phased retirement issues in Notice 2002-43."

The regulations would not go into effect until issued as final regulations.

A copy of the proposed regulations is attached.

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REPORTS

- Proposed Regulations

[4830-01-p]

DEPARTMENT OF TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-114726-04]

RIN 1545-BD23

Distributions from a Pension Plan under a Phased Retirement Program

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This notice of proposed rulemaking contains proposed amendments to the Income Tax Regulations under section 401(a) of the Internal Revenue Code. These proposed regulations provide rules permitting distributions to be made from a pension plan under a phased retirement program and set forth requirements for a bona fide phased retirement program. The proposed regulations will provide the public with guidance regarding distributions from qualified pension plans and will affect administrators of, and participants in, such plans.

DATES: Written or electronic comments and requests for a public hearing must be received by February 8, 2005.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-114726-04), room 5203, Internal Revenue Service, PO Box 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (REG-114726-04), Courier's Desk, Internal Revenue

Service, 1111 Constitution Avenue, NW., Washington, DC, or sent electronically, via the IRS Internet site at www.irs.gov/regs or via the Federal eRulemaking Portal at www.regulations.gov (indicate IRS and REG-114726-04).

FOR FURTHER INFORMATION CONTACT: Concerning the regulations, Cathy A. Vohs, 202-622-6090; concerning submissions and requests for a public hearing, contact Sonya Cruse, 202-622-7180 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background

As people are living longer, healthier lives, there is a greater risk that individuals may outlive their retirement savings. In addition, employers have expressed interest in encouraging older, more experienced workers to stay in the workforce. One approach that some employers have implemented is to offer employees the opportunity for Aphased retirement."

While there is no single approach to phased retirement, these arrangements generally provide employees who are at or near eligibility for retirement with the opportunity for a reduced schedule or workload, thereby providing a smoother transition from full-time employment to retirement. These arrangements permit the employer to retain the services of an experienced employee and provide the employee with the opportunity to continue active employment at a level that also allows greater flexibility and time away from work.

During such a transition arrangement, employees may wish to supplement their part-time income with a portion of their retirement savings. However, phased retirement

can also increase the risk of outliving retirement savings for employees who begin drawing upon their retirement savings before normal retirement age. Even though the annuity distribution options offered by defined benefit plans preclude outliving benefits, early distribution of a portion of the employee's benefit will reduce the benefits available after full retirement. On the other hand, phased retirement also can provide employees additional time to save for retirement because employees continue working while they are able to do so, and can accrue additional benefits and reduce or forgo early spending of their retirement savings.

In light of this background, Treasury and the IRS issued Notice 2002-43 in the Cumulative Bulletin (2002-27 C.B. 38 (July 8, 2002)), in which comments were requested regarding phased retirement. Notice 2002-43 specifically requested comments on a wide variety of issues, including the following:

! Under what circumstances, if any, would permitting distributions from a defined benefit plan before an employee attains normal retirement age be consistent with the requirement that a defined benefit plan be established and maintained primarily for purposes of providing benefits after retirement, such as the extent to which an employee has actually reduced his or her workload?

! If there are such circumstances, how should any early retirement subsidy be treated?

Comments Received

Sixteen written comments were formally submitted in response to Notice 2002-43. These comments are in addition to the substantial number of articles and other published

materials addressing phased retirement.[1]

While some of the comments expressed concerns over the potential for both dissipation of retirement funds and violation of age discrimination laws, commentators generally responded favorably to the proposal to provide guidance on facilitating phased retirement arrangements. These commentators noted that permitting pension distributions during phased retirement would be attractive to both employers and employees. Commentators also indicated that any guidance issued should provide that establishment of phased retirement arrangements be optional on the part of the employer and that participation in any such arrangement be voluntary on the part of the employee. Most of the comments recommended that eligibility to participate in a phased retirement program be limited to employees who are eligible for immediately commencing retirement benefits under the plan (including those eligible for early retirement benefits). Other comments recommended that retirement benefits be permitted to start at a specific age or combination of age and service; however, they noted that current legislative constraints, notably the section 72(t) 10 percent additional income tax on early distributions, may limit the desirability of this option.

Some commentators advocated that any phased retirement arrangement should be

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1 See, for example, Pension & Welfare Benefits Administration, U.S. Department of Labor, "Report on Working Group on Phased Retirement to the Advisory Council on Employee Welfare & Pension Benefit Plans," 2000; Forman, Jonathan Barry, "How Federal Pension Laws Influence Individual Work and Retirement Decisions," 54 Tax Law. 143 (2000); Littler Mendelson, "Employers Consider 'Phased Retirement' to Retain Employees," Maryland Employment Law Letter, Vol 10, Issue 6 (April, 2000); Geisel, Jerry, "Rethinking Phased Retirement; IRS Call for Comment May Signal Pension Law Changes," Business Insurance (June 24, 2002); Flahaven, Brian, "Please Don't Go! Why Phased Retirement May Make Sense For Your Government," 18 Gov't Finance Review 24 (Oct. 1, 2002); NPR, Morning Edition, "Older Workers Turn to 'Phased' Retirement, " (May 18, 2004) at www.npr.org/features/feature.php?wfId=1900465

cost neutral and not create additional funding obligations for employers. Others recommended that any early retirement subsidy available to an employee upon full retirement continue to be available if the employee participates in phased retirement. For example, one such commentator recommended not only that any early retirement subsidy be available upon phased retirement, but also that the subsidy so paid not be permitted to be applied to reduce the remainder of the benefit that is earned by the employee, particularly if the employee continues working past normal retirement age.

The comments were divided over what constituted phased retirement. Several recommended that phased retirement benefits be limited to cases in which there is a reduction in hours worked. Others recommended that a reduction in hours not be required and that a transition to a less stressful job also be considered phased retirement or that the full retirement benefit be payable after the attainment of a specified age or years of service without regard to any change in work.

The commentators who recommended that phased retirement benefits be limited to cases in which there is a reduction in hours worked generally recommended that the phased retirement benefits payable be proportionate to the reduction in work, based on a "dual status" approach. Under this dual status approach, an employee who reduces his or her work schedule to, for example, 80 percent of full-time would be considered to be 20 percent retired and thus entitled to 20 percent of his or her retirement benefit. The employee would continue to accrue additional benefits based on the actual hours he or she continues to work.

Several of the commentators discussed the implications of phased retirement benefits for purposes of the nondiscrimination rules of section 401(a)(4) and the anti-cutback rules of section 411(d)(6). Many of the comments said that phased retirement arrangements must be flexible and that it would be important for employers to be able to adopt a phased retirement arrangement on a temporary (even experimental) basis.

Many commentators expressed concern over the effect that a reduction in hours and the corresponding reduction in compensation would have on the final average pay of an individual for purposes of the benefit calculation when the employee fully retires. These comments generally requested guidance on this issue, including clarification as to whether an employee's final average pay is permitted to decline as a result of the employee's reduction in hours pursuant to participation in a phased retirement arrangement.

Explanation of Provisions

Overview

The proposed regulations would amend §1.401(a)-1(b) and add §1.401(a)-3 in order to permit a pro rata share of an employee's accrued benefit to be paid under a bona fide phased retirement program. The pro rata share is based on the extent to which the employee has reduced hours under the program. Under this pro rata approach, an employee maintains a dual status (i.e., partially retired and partially in service) during the phased retirement period. This pro rata or dual status approach to phased retirement was one of the approaches recommended by commentators.

While all approaches suggested by commentators were considered, the pro rata

approach is the most consistent with the requirement that benefits be maintained primarily for retirement. Other approaches, such as permitting benefits to be fully available if an employee works reduced hours as part of phased retirement or permitting distributions of the entire accrued benefit to be paid as of a specified age prior to normal retirement age, are fundamentally inconsistent with the §1.401(a)-1(b) principle that benefits be paid only after retirement. In addition, although a number of commentators suggested that guidance address the practice of terminating an employee with a prearranged rehiring of the employee (or similar sham transactions), the proposed regulations do not address this topic because it involves additional issues outside the scope of this project.

Rules Relating to Phased Retirement

Under the proposed regulations, a plan would be permitted to pay a pro rata portion of the employee's benefits under a bona fide phased retirement program before attainment of normal retirement age. The proposed regulations define a bona fide phased retirement program as a written, employer-adopted program pursuant to which employees may reduce the number of hours they customarily work beginning on or after a retirement date specified under the program and receive phased retirement benefits. Payment of phased retirement benefits is permitted only if the program meets certain conditions, including that employee participation is voluntary and the employee and employer expect the employee to reduce, by 20 percent or more, the number of hours the employee works during the phased retirement period.

Consistent with the pro rata approach discussed above, the maximum amount that is permitted to be paid is limited to the portion of the employee's accrued benefit equal to the product of the employee's total accrued benefit on the date the employee commences phased retirement (or any earlier date selected by the plan for administrative ease) and the employee's reduction in work. The reduction in work is based on the employee's work schedule fraction, which is the ratio of the hours that the employee is reasonably expected to work during the phased retirement period to the hours that would be worked if the employee were full-time. Based in part on commentators' concerns regarding early retirement subsidies, the proposed regulations generally require that all early retirement benefits, retirement-type subsidies, and optional forms of benefit that would be available upon full retirement be available with respect to the phased retirement accrued benefit. However, the proposed regulations would not permit payment to be made in the form of a single-sum distribution (or other eligible rollover distribution) in order to prevent the premature distribution of retirement benefits. The phased retirement benefit is an optional form of benefit protected by section 411(d)(6) and the election of a phased retirement benefit is subject to the provisions of section 417, including the required explanation of the qualified joint and survivor annuity.

Some comments suggested that phased retirement be limited to employees who have attained an age or service (or combination thereof) that is customary for retirement, e.g., where the employer has reasonably determined in good faith that participants who cease employment with the employer after that age or service combination are typically not

expected to continue to perform further services of a generally comparable nature elsewhere in the workforce. Such a retirement age might be considerably lower than age 65 in certain occupations (such as police or firefighters). As discussed further below (under the heading Application to Plans Other Than Qualified Pension Plans), the Treasury and IRS have concluded that they do not have the authority to permit payments to begin from a section 401(k) plan under a bona fide phased retirement program before the employee attains age 59 ½ or has a severance from employment.[2] Further, section 72(t)(3)(B) provides an additional income tax on early distributions if annuity distributions are made before the earlier of age 59 ½ or separation from service. Accordingly, in lieu of a customary retirement age, the proposed regulations adopt a rule that is consistent with section 401(k) and section 72(t)(3)(B), under which phased retirement benefits may not be paid before an employee attains age 59 ½.

Additional Accruals During Phased Retirement

The regulations provide that, during the phased retirement period, in addition to being entitled to the phased retirement benefit, the employee must be entitled to participate in the plan in the same manner as if the employee were still maintaining a full-time work schedule (including calculation of average earnings) and must be entitled to the same benefits (including early retirement benefits, retirement-type subsidies, and optional forms of benefits) upon full retirement as a similarly situated employee who has not elected phased retirement, except that the years of service credited under the plan for any plan year during the phased

2 Cf., *Edwards v. Commissioner*, T.C. Memo. 1989-409, *aff'd*, 906 F.2d 114 (4th Cir. 1990).

retirement period is multiplied by the ratio of the employee's actual hours of service during the year to the employee's full-time work schedule, or by the ratio of the employee's compensation to the compensation that would be paid for full-time work. Thus, for example, under a plan with a 1,000 hours of service requirement to accrue a benefit, an employee participating in a phased retirement program will accrue proportionate additional benefits, even if the employee works fewer than 1,000 hours of service.

The requirement that full-time compensation be imputed, with a proportionate reduction based on an employee's actual service, is intended to ensure that a participant is not disadvantaged by reason of choosing phased retirement. This rule precludes the need for extensive disclosure requirements, e.g., disclosure to alert participants to rights that may be lost as a result of participating in a phased retirement program. To be consistent with the requirement to use full-time compensation, the proposed regulations require an employee who was a highly compensated employee before commencing phased retirement to be treated as a highly compensated employee during phased retirement. See also §1.414(q)-1T, A-4 & A-5.

Under the proposed regulations, the employee's final retirement benefit is comprised of the phased retirement benefit and the balance of the employee's accrued benefit under the plan (i.e., the excess of the total plan formula benefit over the portion of the accrued benefit paid as a phased retirement benefit). Upon full retirement, the phased retirement benefit can continue unchanged or the plan is permitted to offer a new election with respect to that benefit.

This bifurcation is consistent with commentators' recommendation that an employee who is in a phased retirement program has a dual status, under which the employee is treated as retired to the extent of the reduction in hours and is treated as working to the extent of the employee's continued work with the employer. This approach also ensures that a phased retirement program offers an early retirement subsidy to the extent the employee has reduced his or her hours, and that the remainder of the employee's benefit rights is not adversely affected by participation in the phased retirement program.

Testing and Adjustment of Payments

Subject to certain exceptions, the proposed regulations require periodic testing to ensure that employees in phased retirement are in fact working at the reduced schedule, as expected. Thus, unless an exception applies, a plan must provide for an annual comparison between the number of hours actually worked by an employee during a testing period and the number of hours the employee was reasonably expected to work. If the actual hours worked during the testing period are materially greater than the expected number of hours, then the employee's phased retirement benefit must be reduced prospectively. For this purpose, the employee's hours worked are materially greater than the employee's work schedule if they exceed either 133-1/3 percent of the work schedule or 90 percent of the hours that the employee would work under a full-time schedule.

This annual comparison is not required after the employee is within 3 months of attaining normal retirement age or if the amount of compensation paid to the employee by the employer during the phased retirement testing period does not exceed the compensation

that would be paid to the employee if he or she had worked full time multiplied by the employee's work schedule fraction. Further, no comparison is required during the first year of an employee's phased retirement or if the employee has entered into an agreement with the employer that the employee will retire within 2 years.

In the event that the employer and employee agree to increase prospectively the hours that the employee will work, then the employee's phased retirement benefit must be adjusted based on a new work schedule. The date of the agreement to increase the employee's hours is treated as a comparison date for testing purposes.

In calculating the employee's benefit at full retirement, if an employee's phased retirement benefits have been reduced during phased retirement, the employee's accrued benefit under the plan is offset by an amount that is actuarially equivalent to the additional payments made before the reduction. The potential for this offset, like other material features of the phased retirement optional form of benefit, must be disclosed as part of the QJSA explanation as required under §1.401(a)-20, Q&A-36, and §1.417(a)(3)-1(c)(1)(v) and (d)(1).

If the employee's phased retirement benefit is less than the maximum amount permitted or the employee's work schedule is further reduced at a later date, the proposed regulations allow a plan to provide one or more additional phased retirement benefits to the employee. The additional phased retirement benefit, commencing a later annuity starting date, provides flexibility to reflect future reductions in the employee's work hours.

Provisions Relating to Payment After Normal Retirement Age

The proposed regulations clarify that a pension plan (i.e., a defined benefit plan or money purchase pension plan) is permitted to pay benefits upon an employee's attainment of normal retirement age. However, normal retirement age cannot be set so low as to be a subterfuge to avoid the requirements of section 401(a), and, accordingly, normal retirement age cannot be earlier than the earliest age that is reasonably representative of a typical retirement age for the covered workforce.[3]

Application to Plans Other Than Qualified Pension Plans

The regulations that limit distributions that are modified by these proposed regulations only apply to pension plans (i.e., defined benefit or money purchase pension plans). Other types of plans may be subject to less restrictive rules regarding in-service distributions, including amounts held in or attributable to: (1) qualified profit sharing and stock bonus plans to the extent not attributable to elective deferrals under section 401(k); (2) insurance annuities under section 403(b)(1), and retirement income accounts under section 403(b)(9), to the extent not attributable to elective deferrals; (3) custodial accounts under section 403(b)(7) to the extent not attributable to elective deferrals; and (4) elective deferrals under section 401(k) or 403(b). In general, these types of plans are permitted to provide for distributions after attainment of age 59 ½, without regard to whether the employee has retired or had a severance from employment. Accordingly, they may either provide for the same phased retirement rules that are proposed in these regulations or may provide for other partial or full in-service distributions to be available after attainment of age 59 ½.

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3 While a low normal retirement age may have a significant cost effect on a traditional defined benefit plan, this effect

However, eligible governmental plans under section 457(b) are not generally permitted to provide for payments to be made before the earlier of severance from employment or attainment of age 70 ½. See generally §1.457-6.

Other Issues

The proposed regulations also authorize the Commissioner to issue additional rules in guidance of general applicability regarding the coordination of partial retirement under a phased retirement program and the plan qualification rules under section 401(a).

These proposed regulations do not address all of the issues that commentators raised in response to Notice 2002-43. Thus, as noted above, the proposed regulations do not address when a full retirement occurs and specifically do not endorse a prearranged termination and rehire as constituting a full retirement. Further, the proposed regulations only address certain tax issues. For example, although commentators pointed out that the continued availability of heath coverage would be an important feature for employees in deciding whether to participate in phased retirement, the proposed regulations do not include any rules relating to heath coverage. Similarly, the proposed regulations do not address any potential age discrimination issues, other than through the requirement that participation in a bona fide phased retirement program be voluntary.

Proposed Effective Date

The rules in these regulations are proposed to apply to plan years beginning on or after the date of publication of the Treasury decision adopting these rules as final regulations

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is not as significant for defined contribution plans or for hybrid defined benefit plans.

in the **Federal Register**. These proposed regulations cannot be relied on before they are adopted as final regulations.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these proposed regulations, and, because these regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Requests for a Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS. All comments will be available for public inspection and copying.

Comments are specifically requested on the following issues:

- Should eligibility to participate in a phased retirement program be extended to employees that reduce their workload using a standard, other than counting hours,

to identify the reduction, and, if so, are there administrable methods for measuring the reduction?

- The proposed regulations require periodic testing of the hours an employee actually works during phased retirement, and if the hours are materially greater than the employee's phased retirement work schedule, the phased retirement benefit must be adjusted. As discussed above (under the heading Testing), there are a number of exceptions to this requirement. Are there other, less complex alternatives that also would ensure that phased retirement benefits correspond to the employee's reduction in hours?
- The proposed regulations require an offset for the actuarial value of additional payments made before a reduction in phased retirement benefits. Should the regulations permit this offset to be calculated without regard to any early retirement subsidy and, if so, how should a subsidy be quantified?
- The proposed regulations clarify that the right to receive a phased retirement benefit as a partial payment is a separate optional form of benefit for purposes of section 411(d)(6) and, thus, is a benefit, right, or feature for purposes of the special nondiscrimination rules at §1.401(a)(4)-4. Comments are requested on whether there are facts and circumstances under which the age and service conditions for a particular employer's phased retirement program should be disregarded in applying §1.401(a)(4)-4 (even if the program may only be in place for a temporary period), or

under which the rules at §1.401(a)(4)-4 should otherwise be modified with respect to phased retirement.

- Should any special rules be adopted to coordinate the rules regarding distributions and continued accruals during phased retirement with a plan's provisions regarding employment after normal retirement age, such as suspension of benefits?

A public hearing may be scheduled if requested in writing by a person that timely submits written comments. If a public hearing is scheduled, notice of the date, time and place for the hearing will be published in the **Federal Register**.

Drafting Information

The principal author of these proposed regulations is Cathy A. Vohs of the Office of the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). However, other personnel from the IRS and Treasury participated in their development.

List of Subjects 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding entries in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.401(a)-1 also issued under 26 U.S.C. 401.
Section 1.401(a)-3 also issued under 26 U.S.C. 401.

Par. 2. In §1.401(a)-1, paragraph (b)(1)(i) is amended by adding text before the period at the end of the current sentence and a new second sentence, and paragraph (b)(1)(iv) to read as follows:

' 1.401(a)-1 Post-ERISA qualified plans and qualified trusts; in general.

* * * * *

(b) * * *

(1) * * *

(i) * * * or attainment of normal retirement age. However, normal retirement age cannot be set so low as to be a subterfuge to avoid the requirements of section 401(a), and, accordingly, normal retirement age cannot be earlier than the earliest age that is reasonably representative of a typical retirement age for the covered workforce.

* * * * *

(iv) Benefits may not be distributed prior to normal retirement age solely due to a reduction in hours. However, notwithstanding anything provided elsewhere in paragraph (b) of this section (including the pre-ERISA rules under ' 1.401-1), an employee may be treated as partially retired for purposes of paragraph (b)(1)(i) of this section to the extent provided under ' 1.401(a)-3 relating to a bona fide phased retirement program.

* * * * *

Par. 3. Section 1.401(a)-3 is added to read as follows:

' 1.401(a)-3 Benefits during phased retirement.

(a) Introduction--(1) General rule. Under section 401(a), a qualified pension plan may provide for the distribution of phased retirement benefits in accordance with the limitations of this paragraph (a) to the extent that an employee is partially retired under a bona fide phased retirement program, as defined in paragraph (c) of this section, provided the requirements set forth in paragraphs (d) and (e) of this section are satisfied.

(2) Limitation on benefits paid during phased retirement period--(i) Benefits limited to pro rata retirement benefit. The phased retirement benefits paid during the phased retirement period cannot exceed the phased retirement accrued benefit payable in the optional form of benefit applicable at the annuity starting date for the employee's phased retirement benefit.

(ii) Availability of early retirement subsidies, etc. Except as provided in paragraph (a)(2)(iii) of this section, all early retirement benefits, retirement-type subsidies, and optional forms of benefit available upon full retirement must be available with respect to the portion of an employee's phased retirement accrued benefit that is payable as a phased retirement benefit.

(iii) Limitation on optional forms of payment. Phased retirement benefits may not be paid in the form of a single sum or other form that constitutes an eligible rollover distribution under section 402(c)(4).

(3) Limited to full-time employees who are otherwise eligible to commence benefits. Phased retirement benefits are only permitted to be made available to an employee who, prior to the phased retirement period, normally maintains a full-time work

schedule and who would otherwise be eligible to commence retirement benefits immediately if he or she were to fully retire.

(4) Authority of Commissioner to adopt other rules. The Commissioner, in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin (see §601.601(d)(2)(ii)(b) of this chapter), may adopt additional rules regarding the coordination of partial retirement under a phased retirement program and the qualification rules of section 401(a).

(b) Definitions--(1) In general. The definitions set forth in this paragraph (b) apply for purposes of this section.

(2) Phased retirement program. The term phased retirement program means a written, employer-adopted program pursuant to which employees may reduce the number of hours they customarily work beginning on or after a date specified under the program and commence phased retirement benefits during the phased retirement period, as provided under the plan.

(3) Phased retirement period. The term phased retirement period means the period of time that the employee and employer reasonably expect the employee to work reduced hours under the phased retirement program.

(4) Phased retirement accrued benefit. The term phased retirement accrued benefit means the portion of the employee's accrued benefit equal to the product of the employee's total accrued benefit on the annuity starting date for the employee's phased retirement benefit, and one minus the employee's work schedule fraction.

(5) Phased retirement benefit. The term phased retirement benefit means the benefit paid to an employee upon the employee's partial retirement under a phased retirement program, based on some or all of the employee's phased retirement accrued benefit, and payable in the optional form of benefit applicable at the annuity starting date.

(6) Work schedule. With respect to an employee, the term work schedule means the number of hours the employee is reasonably expected to work annually during the phased retirement period (determined in accordance with paragraph (c)(4) of this section).

(7) Full-time work schedule. With respect to an employee, the term full-time work schedule means the number of hours the employee would normally work during a year if the employee were to work on a full-time basis, determined in a reasonable and consistent manner.

(8) Work schedule fraction. With respect to an employee, the term work schedule fraction means a fraction, the numerator of which is the employee's work schedule and the denominator of which is the employee's full-time work schedule.

(c) Bona fide phased retirement program--(1) Definition generally. The term bona fide phased retirement program means a phased retirement program that satisfies paragraphs (c)(2) through (5) of this section.

(2) Limitation to individuals who have attained age 59 ½. A bona fide phased retirement program must be limited to employees who have attained age 59 ½. A plan is permitted to impose additional requirements for eligibility to participate in a bona fide phased retirement program, such as limiting eligibility to either employees who have

satisfied additional age or service conditions (or combination thereof) specified in the program or employees whose benefit may not be distributed without consent under section 411(a)(11).

(3) Participation must be voluntary. An employee's participation in a bona fide phased retirement program must be voluntary.

(4) Reduction in hours requirement. An employee who participates in a bona fide phased retirement program must reasonably be expected (by both the employer and employee) to reduce, by 20 percent or more, the number of hours the employee customarily works. This requirement is satisfied if the employer and employee enter into an agreement, in good faith, under which they agree that the employee will reduce, by 20 percent or more, the number of hours the employee works during the phased retirement period.

(5) Limited to employees who are not key-employee owners. Phased retirement benefits are not permitted to be made available to a key employee who is described in section 416(i)(1)(A)(ii) or (iii).

(d) Conditions for commencement of phased retirement benefit--(1) Imputed accruals based on full-time schedule--(i) General rule. During the phased retirement period, in addition to being entitled to payment of the phased retirement benefit, the employee must be entitled to participate in the plan in the same manner as if the employee still maintained a full-time work schedule (including calculation of average earnings, imputation of compensation in accordance with '1.414(s)-1(f), and imputation of service in

accordance with the service-crediting rules under ' 1.401(a)(4)-11(d)), and must be entitled to the same benefits (including early retirement benefits, retirement-type subsidies, and optional forms of benefits) upon full retirement as a similarly situated employee who has not elected phased retirement, except that the years of service credited under the plan for any plan year during the phased retirement period is determined under paragraph (d)(1)(ii) or (iii) of this section, whichever is applicable.

(ii) Method for crediting years of service for full plan years. The years of service credited under the plan for any full plan year during the phased retirement period is multiplied by an adjustment ratio that is equal to the ratio of the employee's actual hours worked during that year to the number of hours that would be worked by the employee during that year under a full-time work schedule. Alternatively, on a reasonable and consistent basis, the adjustment ratio may be based on the ratio of an employee's actual compensation during the year to the compensation that would be paid to the employee during the year if he or she had maintained a full-time work schedule.

(iii) Method for crediting years of service for partial plan years. In the case of a plan year only a portion of which is during a phased retirement period for an employee, the method described in paragraphs (d)(1)(i) and (ii) of this section is applied with respect to that portion of the plan year. Thus, for example, if an employee works full time until October 1 of a calendar plan year and works one-third time from October 1 through December 31 of the year, then the employee is credited with 10 months for that year (9 months plus 1/3 of 3 months).

(2) Ancillary benefits during phased retirement period--(i) Death benefits. If an employee dies while receiving phased retirement benefits, death benefits are allocated between the phased retirement benefit and the benefit that would be payable upon subsequent full retirement. See also '1.401(a)-20, A-9. Thus, if an employee dies after the annuity starting date for the phased retirement benefit, death benefits are paid with respect to the phased retirement benefit in accordance with the optional form elected for that benefit, and death benefits are paid with respect to the remainder of the employee's benefit in accordance with the plan's provisions regarding death during employment.

(ii) Other ancillary benefits. To the extent provided under the terms of the plan, ancillary benefits, other than death benefits described in paragraph (d)(2)(i) of this section, are permitted to be provided during the phased retirement period.

(3) Calculation of benefit at full retirement--(i) In general. Upon full retirement following partial retirement under a phased retirement program, the employee's total accrued benefit under the plan (including the employee's accruals during the phased retirement period, determined in accordance with paragraph (d)(1) of this section) is offset by the portion of the employee's phased retirement accrued benefit that is being distributed as a phased retirement benefit at the time of full retirement.

(ii) Adjustment for prior payments. If, before full retirement, the employee's phased retirement benefit has been reduced under paragraph (d)(4) of this section, then the employee's accrued benefit under the plan is also offset upon full retirement by an amount that is actuarially equivalent to the phased retirement benefit payments that have been

made during the phased retirement period that were not made with respect to the portion of the phased retirement accrued benefit that is applied as an offset under paragraph (d)(3)(i) of this section at the time of full retirement.

(iii) Election of optional form with respect to net benefit. Upon full retirement, an employee is entitled to elect, in accordance with section 417, an optional form of benefit with respect to the net accrued benefit determined under paragraph (d)(3)(i) and (ii) of this section.

(iv) New election permitted for phased retirement benefit. A plan is permitted to provide that, upon full retirement, an employee may elect, in accordance with section 417 and without regard to paragraph (a)(2)(iii) of this section, a new optional form of benefit with respect to the portion of the phased retirement accrued benefit that is being distributed as a phased retirement benefit. Any such new optional form of benefit is calculated at the time of full retirement as the actuarial equivalent of the future phased retirement benefits (without offset for the phased retirement benefits previously paid).

(4) Prospective reduction in phased retirement benefit if hours are materially greater than expected--(i) General rule. Except as otherwise provided in this paragraph (d)(4), a plan must compare annually the number of hours actually worked by an employee during the phased retirement testing period and the number of hours the employee was reasonably expected to work during the testing period for purposes of calculating the work schedule fraction. For this purpose, the phased retirement testing period is the 12 months preceding the comparison date (or such longer period permitted under paragraph(d)(4)(iv)

of this section, or any shorter period that applies if there is a comparison date as a result of an agreed increase under paragraph (d)(4)(vi) of this section). In the event that the actual hours worked (determined on an annual basis) during the phased retirement testing period exceeds the work schedule, then, except as provided in paragraph (d)(4)(ii) or (v) of this section, the employee's phased retirement benefit must be reduced in accordance with the method provided in paragraph (d)(4)(iii) of this section, effective as of an adjustment date specified in the plan that is not more than 3 months later than the comparison date.

(ii) Permitted variance in hours. A plan is not required to reduce the phased retirement benefit unless the hours worked during the phased retirement testing period are materially greater than the hours that would be expected to be worked under the work schedule. For this purpose, the employee's hours worked (determined on annual basis) are materially greater than the employee's work schedule if either--

(A) The employee's hours worked (determined on an annual basis) are more than 133-1/3 percent of the employee's work schedule; or

(B) The employee's hours worked (determined on an annual basis) exceed 90 percent of the full-time work schedule.

(iii) Adjustment method. If a phased retirement benefit must be reduced under paragraph (d)(4) of this section, a new (i.e., reduced) phased retirement benefit must be calculated as provided in this paragraph (d)(4)(iii). First, an adjusted work schedule is determined. The adjusted work schedule is an annual schedule based on the number of hours the employee actually worked during the phased retirement testing period. The

adjusted work schedule is applied to the employee's accrued benefit that was used to calculate the prior phased retirement benefit. This results in a new phased retirement accrued benefit for purposes of paragraph (b)(4) of this section. Second, a new phased retirement benefit is determined, based on the new phased retirement accrued benefit and payable in the same optional form of benefit (i.e., using the same annuity starting date and the same early retirement factor and other actuarial adjustments) as the prior phased retirement benefit. If an employee is receiving more than one phased retirement benefit (as permitted under paragraph (e)(2) of this section) and a reduction is required under paragraph (d)(4) of this section, then the reduction is applied first to the most recently commencing phased retirement benefit (and then, if necessary, to the next most recent phased retirement benefit, etc.).

(iv) Comparison date for phased retirement testing period. The comparison date is any date chosen by the employer on a reasonable and consistent basis and specified in the plan, such as the last day of the plan year, December 31, or the anniversary of the annuity starting date for the employee's phased retirement benefit. As an alternative to testing the hours worked during the 12 months preceding the comparison date, the plan may, on a reasonable and consistent basis, provide that the comparison of actual hours worked to the work schedule be based on a cumulative period that exceeds 12 months beginning with either the annuity starting date for the employee's phased retirement benefit or any later date specified in the plan.

(v) Exceptions to comparison requirement--(A) In general. The comparison of hours described in paragraph (d)(4) of this section is not required in the situations set forth in this paragraph (d)(4)(v).

(B) Employees recently commencing phased retirement. No comparison is required for an employee who commenced phased retirement benefits within the 12-month period preceding the comparison date.

(C) Employees with short phased retirement periods. No comparison is required during the first 2 years of an employee's phased retirement period if--

(1) The employee has entered into an agreement with the employer under which the employee's phased retirement period will not exceed 2 years and the employee will fully retire at the end of such period; and

(2) The employee fully retires after a phased retirement period not in excess of 2 years.

(D) Employees with proportional pay reduction. No comparison is required for any phased retirement testing period if the amount of compensation paid to the employee during that period does not exceed the compensation that would be paid to the employee if he or she had maintained a full-time work schedule multiplied by the work schedule fraction.

(E) Employees at or after normal retirement age. No comparison is required for any phased retirement testing period ending within 3 months before the employee's normal retirement age or any time thereafter.

(vi) Agreement to increase hours--(A) General rule. In the event that the employer and the employee agree to increase prospectively the hours under the employee's work schedule prior to normal retirement age, then, notwithstanding the exceptions provided in paragraphs (d)(4)(v)(B) through (D) of this section, the plan must treat the effective date of the agreement to increase the employee's hours as a comparison date for purposes of paragraph (d)(4)(iv) of this section. For purposes of this paragraph (d)(4)(vi), with respect to an employee, the term new work schedule means the greater of the actual number of hours the employee worked (determined on an annual basis) during the prior phased retirement testing period or the annual number of hours the employee reasonably expects to work under the new agreement.

(B) Required adjustments. If the employee's hours under the new work schedule are materially greater (within the meaning of paragraph (d)(4)(ii) of this section) than the hours the employee would be expected to work (based on the employee's prior work schedule), the employer is required to reduce the employee's phased retirement benefit, effective as of the date of the increase, based on the new work schedule. In this case, the employee's new work schedule is used for future comparisons under paragraph (d)(4) of this section.

(C) Permitted adjustments. If the employee's hours under the new work schedule are not materially greater (within the meaning of paragraph (d)(4)(ii) of this section) than the hours the employee would be expected to work (based on the employee's prior work schedule), the employer is permitted, but not required, to reduce the employee's phased

retirement benefit, effective as of the date of the increase, based on the new work schedule. If the benefit is so reduced, the employee's new work schedule is used for future comparisons under paragraph (d)(4) of this section. If the employee's phased retirement benefit is not so reduced, future comparisons are determined using the employee's prior work schedule.

(e) Other rules--(1) Highly compensated employees. An employee who partially retires under a phased retirement program and who was a highly compensated employee, as defined in section 414(q), immediately before the partial retirement is considered to be a highly compensated employee during the phased retirement period, without regard to the compensation actually paid to the employee during the phased retirement period.

(2) Multiple phased retirement benefits permitted--(i) In general. A plan is permitted to provide one or more additional phased retirement benefits prospectively to an employee who is receiving a phased retirement benefit if the conditions set forth in paragraph (e)(2)(ii) of this section are satisfied. At the later annuity starting date for the additional phased retirement benefit, the additional phased retirement benefits may not exceed the amount permitted to be paid based on the excess of--

(A) The employee's phased retirement accrued benefit at the later annuity starting date, over

(B) The portion of the employee's phased retirement accrued benefit at the earlier annuity starting date that is being distributed as a phased retirement benefit.

(ii) Conditions. The additional phased retirement benefit described in paragraph

(e)(2)(i) of this section may be provided only if--

(A) The prior phased retirement benefit was not based on the employee's entire phased retirement accrued benefit at the annuity starting date for the prior phased retirement benefit, or

(B) The employee's work schedule at the later annuity starting date is less than the employee's work schedule that was used to calculate the prior phased retirement benefit.

(3) Application of section 411(d)(6). In accordance with §1.411(d)-4, A-1(b)(1), the right to receive a partial distribution of an employee's accrued benefit as a phased retirement benefit is treated as an optional form of payment that is separate from the right to receive a full distribution of the accrued benefit upon full retirement.

(4) Application of nondiscrimination rules. The right to receive a phased retirement benefit is a benefit, right, or feature that is subject to §1.401(a)(4)-4.

(f) Examples. The following examples illustrate the application of this section:

Example 1. (i) Employer's Plans. Plan X (as in effect prior to amendment to reflect the phased retirement program described below) is a defined benefit plan maintained by Employer M. Plan X provides an accrued benefit of 1.5 % of the average of an employee's highest three years of pay (based on the highest 36 consecutive months of pay), times years of service (with 1,000 hours of service required for a year of service), payable as a life annuity beginning at age 65. Plan X permits employees to elect to commence actuarially reduced distributions at any time after the later of termination of employment or attainment of age 50, except that if an employee retires after age 55 and completion of 20 years of service, the applicable reduction is only 3 % per year for the years between ages 65 and 62 and 6 % per year for the years between ages 62 to 55. Plan X permits employees to select, with spousal consent, a single life annuity, a joint and contingent annuity with the employee having the right to select any beneficiary and a continuation percentage of 50 %, 75 %, or 100 %, or a 10-year certain and life annuity.

(ii) Phased Retirement Program. Employer M adopts a voluntary phased retirement program that will only be available for employees who retire during the two-year period

from February 1, 2006 to January 31, 2008. The program will not be available to employees who are not entitled to an immediate pension or who are 1 percent owners. Employer M has determined that employees typically begin to retire after attainment of age 55 with at least 15 years of service. Accordingly, to increase retention of certain employees, the program will provide that employees in certain specified work positions who have reached age 59 ½ and completed 15 years of service may elect phased retirement. The program permits phased retirement to be implemented through a reduction of 25 %, 50 %, or 75 % in the number of hours expected to be worked for up to 5 years following phased retirement (other reduced schedules may be elected with the approval of M), with the employee's compensation during the phased retirement period to be based on what a similar full-time employee would be paid, reduced by the applicable percentage reduction in hours expected to be worked. In order to participate in the program, the employee and the employer must enter into an agreement under which the employee will reduce his or her hours accordingly. The agreement also provides that the employee's compensation during phased retirement will be reduced by that same percentage. The program is announced to employees in the fall of 2005.

(iii) Plan Provisions Regarding Phased Retirement Benefit. (A) Plan X is amended, prior to February 1, 2006, to provide that an employee who elects phased retirement under M's phased retirement program is permitted to commence benefits with respect to a portion of his or her accrued retirement benefit (the employee's phased retirement accrued benefit), based on the applicable percentage reduction in hours expected to be worked. For example, for a 25 % reduction in hours, the employee is entitled to commence benefits with respect to 25 % of his or her accrued benefit. Plan X permits an employee who commences phased retirement to elect, with spousal consent, from any of the optional forms provided under the plan.

(B) During the phased retirement period, the employee will continue to accrue benefits (without regard to the plan's 1,000 hour requirement), with his or her pay for purposes of calculating benefits under Plan X increased by the ratio of 100 percent to the percentage of full-time pay that will be paid during phased retirement and with the employee's service credit to be equal to the product of the same percentage times the service credit that would apply if the employee were working full time. Upon the employee's subsequent full retirement, his or her total accrued benefit will be based on the resulting highest three years of pay and total years of service, offset by the phased retirement accrued benefit. The retirement benefit payable upon subsequent full retirement is in addition to the phased retirement benefit. Plan X does not provide for a new election with respect to the phased retirement benefit.

(C) In the case of death during the phased retirement period, the employee will be treated as a former employee to the extent of his or her phased retirement benefit and as an active employee to the extent of the retirement benefit that would be due upon full

retirement.

(D) Because the terms of the phased retirement program provide that the employee's compensation during phased retirement will be reduced by that same percentage as applies to calculate phased retirement benefits, Plan X does not have provisions requiring annual testing of hours actually worked.

(iv) Application to a Specific Employee--(A) Phased retirement benefit. Employee E is age 59 ½ with 20 years of credited service. Employee E's compensation is $90,000, and E's highest three years of pay is $85,000. Employee E elects phased retirement on April 1, 2006 and elects to reduce hours by 50 % beginning on July 1, 2006. Thus, E's annuity starting date for the phased retirement benefit is July 1, 2006. Employee E's total accrued benefit as of July 1, 2006 as a single life annuity payable at normal retirement age is equal to $25,500 per year (1.5 % times $85,000 times 20 years of service). Thus, Employee E's phased retirement accrued benefit as of July 1, 2006 as a single life annuity payable at normal retirement age is equal to $12,750 per year ($25,500 times 1 minus E's work schedule fraction of 50 %). Accordingly, Employee E's phased retirement benefit payable as a straight life annuity commencing on July 1, 2006 is equal to $9,690 per year ($12,750 per year times 76 % (100 % minus the applicable reduction for early retirement equal to 3 % for 3 years and 6 % for an additional 2 ½ years)). Employee E elects a joint and 50 % survivor annuity, with E's spouse as the contingent annuitant. Under Plan X, the actuarial factor for this form of benefit is 90 %, so E's benefit is $8,721 per year.

(B) Death during phased retirement. If Employee E were to die on or after July 1, 2006 and before subsequent full retirement, E's spouse would be entitled to a 50 % survivor annuity based on the joint and 50 % survivor annuity being paid to E, plus a qualified preretirement survivor annuity that complies with section 417 with respect to the additional amount that would be paid to E if he or she had fully retired on the date of E's death.

(C) Subsequent full retirement benefit. Three years later, Employee E fully retires from Employer M. Throughout this period, E's compensation has been 50 % of the compensation that would have been paid to E if he or she were working full time. Consequently, no adjustment in E's phased retirement benefit is required. E's highest consecutive 36 months of compensation would be $95,000 if E had not elected phased retirement and E has been credited with 1 ½ years of service credit for the 3 years of phased retirement (.50 times 3 years). Accordingly, prior to offset for E's phased retirement accrued benefit, E's total accrued benefit as of July 1, 2009 as a single life annuity commencing at normal retirement age is equal to $30,637.50 per year ($95,000 times 1.5 % times 21.5 years of service) and, after the offset for E's phased retirement accrued benefit, E's retirement benefit as a single life annuity commencing at normal retirement age is equal to $17,887.50 ($30,637.50 minus $12,750). Thus, the amount of

E's additional early retirement benefit payable as a straight life annuity at age 62 ½ is equal to $16,545.94 per year ($17,887.50 per year times 92.5 % (100 % minus 3 % for 2 ½ years)). Employee E elects, with spousal consent, a 10-year certain and life annuity that applies to the remainder of E's accrued benefit. This annuity is in addition to the previously elected joint and 50 % survivor annuity payable as E's phased retirement benefit.

Example 2. (i) Same Plan and Phased Retirement Program, Except Annual Testing Required. The facts with respect to the Plan X and M's phased retirement program are the same as in Example 1, except that the program does not provide that the employee's compensation during phased retirement will be reduced by that same percentage as is applied to calculate phased retirement benefits, but instead the compensation depends on the number of hours worked by the employee. Plan X provides for annual testing on a calendar year basis and for an employee's phased retirement benefit to be reduced proportionately if the hours worked exceed a threshold, under provisions which reflect the variance permitted paragraph (d)(4)(ii) of this section.

(ii) Employee Has Small Increase in Hours. The facts with respect to Employee E are the same as in Example 1, except that E's full time work schedule would result in 2,000 hours worked annually, E's work schedule fraction is 50 %, and E works 500 hours from July 1, 2006 through December 31, 2006, 1,000 hours in 2007, 1,200 hours in 2008, and 600 hours from January 1, 2009 through E's full retirement on June 30, 2009.

(iii) Application of Testing Rules. No comparison of hours is required for the partial testing period that occurs in 2006. For 2007, no reduction is required in E's phased retirement benefit as a result of the hours worked by E during 2007 because the hours did not exceed E's work schedule (50 % of 2,000). For 2008, although the hours worked by E exceeded E's work schedule, no reduction is required because the hours worked in 2008 were not materially greater than E's work schedule (1,200 is not more than the variance permitted under paragraph (d)(4)(ii) of this section, which is 133-1/3 % of 1,000). E's total accrued benefit upon E's retirement on July 1, 2009 would be based on 21.65 years of service to reflect the actual hours worked from July 1, 2006 through June 30, 2009.

Example 3. (i) Same Plan and Phased Retirement Program, Except Material Increase in Hours. The facts with respect to the Plan X and M's phased retirement program are the same as in Example 2, except E works 1,400 hours in 2008 and 700 hours in the first half of 2009.

(ii) Application of Testing Rules. No comparison of hours is required for the partial testing period that occurs in 2006. For 2007, no reduction is required in E's phased retirement benefit as a result of the hours worked by E during 2007 because the hours did not exceed 50 % of 2,000. However, the hours worked by E during 2008 exceed 133-1/3 % of E's work schedule (50 % of 2,000), so that the phased retirement benefit paid to E

during 2009 must be reduced. The reduction is effective March 1, 2009. The new phased retirement benefit of $5,232.60 is based on 30 % of the participant's accrued benefit as of July 1, 2006, payable as a joint and 50 % survivor annuity commencing on that date (30 % times $25,500 times the early retirement factor of 76 % times the joint and 50 % factor of 90 %). This is equivalent to reducing the previously elected joint and 50 % survivor annuity payable with respect to E by 40 % (400 "excess" hours divided by the 1,000 hour expected reduction). When E retires fully on July 1, 2009, E's total accrued benefit as of July 1, 2009 as a single life annuity commencing at normal retirement age is $31,065 per year ($95,000 times 1.5 % times 21.8 years of service). This accrued benefit is offset by (A) E's phased retirement accrued benefit (which is $7,650 (600 divided by 2,000 times $25,500)) plus (B) the actuarial equivalent of 40 % of the payments that were made to E from January 1, 2008 through February 28, 2009.

Example 4. (i) Same Plan and Phased Retirement Program, Except Employer and Employee Agree to Decrease Hours. The facts with respect to the Plan X and M's phased retirement program are the same as in Example 2, except before 2008, E enters into an agreement with M to decrease E's number of hours worked from 50 % of full time to 25 % of full time. E works 500 hours in 2008 and 250 hours in 2009.

(ii) Application of Multiple Benefit Rule. Under paragraph (e)(2) of this section, Plan M may provide for an additional phased retirement benefit to be offered to E for 2008. The maximum increase would be for the phased retirement benefit paid to E during 2009 to be increased based on a phased retirement accrued benefit equal to 75 % of E's accrued benefit (1,500 divided by 2,000). Thus, the amount being paid to E would be increased, effective January 1, 2008, based on the excess of 75 % of E's total accrued benefit on December 31, 2007, over E's original phased retirement accrued benefit of $12,750. Employee E would have the right to elect, with spousal consent, any annuity form offered under Plan X (with the actuarial adjustment for time of commencement and form of payment to be based on the age of E and any contingent beneficiary (and E's service, if applicable) on June 1, 2008), which would be in addition to the previously elected joint and 50 % survivor annuity payable as E's original phased retirement benefit. When E retires fully on July 1, 2009, Employee E's total accrued benefit as of July 1, 2009 would be offset by (A) E's original phased retirement

accrued benefit plus (B) the phased retirement accrued benefit for which additional phased retirement benefits were payable beginning in 2008.

(g) Effective date. The rules of this section apply to plan years beginning on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**.

Mark E. Matthews,
Deputy Commissioner for Services and Enforcement.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 10, 2004
JS-2095

Treasury Designates Peruvian Airline

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today formally added Aero Continente, a passenger and cargo airline based in Lima, Peru, to its list of entities designated pursuant to the *Foreign Narcotics Kingpin Designation Act* (Kingpin Act). In addition, the Treasury also designated Nuevo Continente as an A.K.A. of Aero Continente.

"The drug trade is driven, first and foremost, by financial greed and the desire for profit. Aero Continente is a financial façade controlled by the notorious Peruvian drug kingpin, Fernando Zevallos Gonzales," said OFAC Director Robert Werner. "The Bush Administration continues to unravel drug trafficking operations and their illicit financial infrastructures by taking actions like today's, which deprive narcotics traffickers of illegal profits funneled through companies such as Aero Continente."

The airline has been blocked by the Treasury pending further investigation since June 1, 2004 following President Bush's decision to identify Fernando Zevallos Gonzales, the airline's founder, as a Significant Foreign Narcotics Trafficker under the *Kingpin Act*. Fernando Zevallos Gonzales has been a major figure in Peruvian narcotics trafficking for more than two decades. Today's action reaffirms that U.S. entities and persons are prohibited from conducting business with Aero Continente, and continues the blocking of assets of Aero Continente in U.S. jurisdiction.

After OFAC's June 1 blocking action, the airline underwent various alleged changes in ownership and changed its name to Nuevo Continente. Despite the ostensible ownership change, the airline was unable to demonstrate to the satisfaction of the Treasury Department that all ties with the airline's former owners had been severed.

This action is part of the ongoing interagency effort of the Treasury, Justice, State, Defense, and Homeland Security Departments, the Central Intelligence Agency, the Federal Bureau of Investigation, and the Drug Enforcement Administration to carry out the *Foreign Narcotics Kingpin Designation Act*, which was signed into law on December 3, 1999, and which applies economic sanctions against narcotics traffickers on a worldwide basis. The *Kingpin Act* was modeled after Executive Order 12978, which applies economic sanctions against narcotics traffickers centered in Colombia and which is also administered by OFAC.

The U.S. President has named a total of 48 Kingpins since 2000. Fernando Zevallos Gonzales was one of ten Kingpins named by President Bush this year, and is the first Kingpin from Peru.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 12, 2004
JS-2096

MEDIA ADVISORY
Secretary Snow To Visit Europe Next Week for Economic and G-20 Meetings

U.S. Treasury Secretary John W. Snow will travel to four European countries next week to discuss the state of the global economy and efforts to continue strong global economic growth. Secretary Snow will visit Ireland, the United Kingdom and Poland, as well as participate in the Group of 20 Finance Ministers and Central Bank Governors' meeting in Germany.

Snow will be in Dublin Nov. 14-15 to meet with economic leaders to review the policies that have resulted in strong economic growth in Ireland in recent years. He also will meet with Dublin City University officials, students and alumni to discuss the role education has played in Ireland's economic growth story. The United States is one of Ireland's largest trading partners and the country has benefited from investments by U.S. companies.

The Secretary will be in London Nov. 16-17 to discuss ongoing efforts to encourage growth and entrepreneurship in the U.K. On Nov. 16, he will deliver at speech at Chatham House that will address the relationship of the U.S. economy to the global economy.

The Secretary's visit to Warsaw on Nov. 18 will be highlighted by a roundtable meeting with the finance ministers of Poland, Hungary, Slovakia and the Czech Republic. The four nations are new members of the European Union.

Secretary Snow then will proceed to Berlin, Germany for the G-20 meetings Nov. 20-22. In addition to the official G-20 meetings, he will host a series of bi-lateral meetings with other attending finance ministers.

The following events are open to the media, which must present media credentials or photo ID:

Monday, Nov. 15

Tour and Remarks at Dublin City University
Dublin City University
Dublin, Ireland
11:30 am local time
**** Media must RSVP to Michael Murphy +353-1-700-5467**
**** Media must arrive by 11:00 am local time**
**** A press availability will be held immediately following the event**

Wednesday, Nov. 17

Remarks to Chatham House
Chatham House
10 St. James Square
London, England
8:30 am local time
**** Media must arrive by 8:00 am local time**

Thursday, Nov. 18

Press Availability Following Roundtable with
Finance Ministers of Poland, Hungary, Slovakia and the Czech Republic

Ministry of Foreign Affairs Palace
ul. Foksal 6
Warsaw, Poland
1:30 pm local time
**** Media must arrive by 1:00 pm local time**

Saturday, Nov. 20

G-20 Group Photo
InterContinental Hotel, Wintergarten Room
Budapester Strasse 2
Berlin, Germany
1:15 pm local time
**** Media must arrive by 12:30 pm local time**

Sunday, Nov. 21

Secretary Snow's G-20 Press Conference
12:00 pm local time
InterContinental Hotel, Room Chur I + II
Budapester Strasse 2
Berlin, Germany
1:15 pm local time
**** Media equipment must be in place by 11:00 am for security sweeps**

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 12, 2004
JS-2097

United States Secures Pathbreaking Agreement to Open Bidding for Untied Aid Credits

Twenty-five members of the Organization for Economic Cooperation and Development (OECD) that are Participants to the Export Credit Arrangement have agreed to a U.S. proposal to open the bidding process for projects in developing countries that are financed with untied aid credits. Untied aid credits are bilateral aid loans whose proceeds are supposed to be available to finance procurement from all countries. The U.S. government and American exporters have been concerned that this aid has primarily financed exports from donor country firms. With the support of Congress, the Bush Administration has sought OECD rules governing these aid loan programs over the last two years.

Secretary John W. Snow and Under Secretary for International Affairs John B. Taylor spearheaded this multilateral initiative to open developing country markets. By opening these markets to effective international competition, this agreement will expand export opportunities under untied aid credit programs. It will increase the benefits of these aid programs to developing countries by ensuring that these countries have the widest choice of goods, services and technologies at the lowest prices.

The two-year pilot agreement will commence on January 1, 2005. For the first time, the agreement will set multilateral requirements for OECD governments to report publicly on the details of their untied aid-financed projects 30 days before the bidding begins. The agreement also provides for minimum bidding periods of 45 days (90 days for projects of $70 million or more). These requirements will help U.S. exporters and other non-donor country exporters to identify and bid for these foreign contracts. To ensure that the bid awards for these untied aid projects are administered fairly, the agreement also includes a requirement for governments to report the outcome of each bid competition. The value of untied aid credits covered by this agreement has averaged over $7 billion annually since 1995, and were as high as $14 billion in 1996.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 15, 2004
js-2098

Treasury Delays Announcement of 4-Week Bill

The Treasury Department is postponing announcement of the 4-week bill auction, scheduled to be announced November 15, 2004, until further notice. This postponement is due to the statutory debt limit.

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PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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November 15, 2004
js-2099

Treasury and IRS Propose Retirement Annuity Regulations

The Treasury Department and IRS issued proposed regulations today relating to retirement annuity contracts under section 403(b), which are generally available to employees of public schools and organizations exempt from tax under section 501 (c)(3), along with related temporary regulations clarifying the application of employment taxes to section 403(b) contracts.

"These regulations provide the first comprehensive guidance on section 403(b) arrangements in over 40 years," said Gregory Jenner, Treasury's Acting Assistant Secretary for Tax Policy. "These regulations would substantially revise the existing regulations to provide guidance on the various statutory changes that have been made for section 403(b) contracts during those 40 years, answer many outstanding issues that were not previously addressed in formal guidance, and demonstrate the increasing similarity among section 403(b) arrangements and the other types of retirement plans that provide for salary deferrals (section 401(k) and governmental section 457(b) plans). These regulations take into account the many comments and discussions we have received with insurance carriers, practitioners and others over the years about the issues that need to be resolved regarding section 403(b)."

The proposed regulations would not go into effect until years beginning after 2005.

A copy of the proposed regulations and the temporary regulations is attached.

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REPORTS

- Proposed Regulations
- Temporary Regulations

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 31

[REG-155608-02]

RIN 1545-BB64

Revised Regulations Concerning Section 403(b) Tax-Sheltered Annuity Contracts

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking, notice of proposed rulemaking by cross-reference to temporary regulations, and notice of public hearing.

SUMMARY: This document contains proposed regulations under section 403(b) of the Internal Revenue Code and under related provisions of sections 402(b), 402(g), 414(c), and 3121(a)(5)(D). The proposed regulations would provide updated guidance on section 403(b) contracts of public schools and tax-exempt organizations described in section 501(c)(3). These regulations would provide the public with guidance necessary to comply with the law and will affect sponsors of section 403(b) contracts, administrators, participants and beneficiaries. In the Rules and Regulations section of this issue of the **Federal Register**, the Treasury Department and IRS are issuing temporary regulations providing employment tax guidance to employers and employees on salary reduction agreements. This document also provides notice of a public hearing on these proposed regulations.

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 31

[TD 9159]

RIN 1545-BD50

Payments Made by Reason of a Salary Reduction Agreement

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Temporary regulation.

SUMMARY: This document contains a temporary regulation that defines the term "salary reduction agreement" for purposes of section 3121(a)(5)(D) of the Internal Revenue Code (Code). The temporary regulation provides guidance to employers (public educational institutions and section 501(c)(3) organizations) purchasing annuity contracts described in section 403(b) on behalf of their employees. The text of the temporary regulation also serves as the text of the proposed regulation set forth in the notice of proposed rulemaking on this subject in the Proposed Rules section in this issue of the **Federal Register**.

DATES: Effective Date: This regulation is effective on November 16, 2004.

Applicability Date: For dates of applicability, see §31.3121(a)(5)-2T(b).

FOR FURTHER INFORMATION CONTACT: Neil D. Shepherd, (202) 622-6040 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

This temporary regulation (REG-155608-02) amends the Employment Tax Regulations (26 CFR part 31) by providing guidance relating to section 3121(a)(5)(D). The Federal Insurance Contributions Act (FICA) imposes taxes on employees and employers equal to a percentage of the wages received with respect to employment. Code section 3121(a) defines wages for FICA tax purposes as all remuneration for employment unless otherwise excepted. Code section 3121(a)(5)(D), added by the Social Security Amendments of 1983 (Public Law 98-21 (97 Stat. 65)), generally excepts from wages payments made by an employer for the purchase of an annuity contract described in section 403(b). In a codification of long-standing administrative practice, however, section 3121(a)(5)(D) expressly excludes from the exception payments made by reason of a salary reduction agreement (whether evidenced by a written instrument or otherwise.) See Rev. Rul. 65-208, 1965-2 C.B. 383, and S. Rep. No. 98-23, at 41, 98th Cong., 1st Sess. (1983). This temporary regulation defines the term "salary reduction agreement" for purposes of section 3121(a)(5)(D).

Explanation of Provisions

The FICA taxation of payments made by an employer for the purchase of annuity contracts described in section 403(b) has been shaped by a congressional concern for the social security revenue base and for employees' social security benefits. In the context of contributions for the purchase of such annuity contracts, Congress has interpreted the term "wages" for FICA tax purposes more broadly than the term "gross income" for income tax purposes. See S. Rep. No. 98-23, at 39, 98th Cong., 1st Sess. (1983) relating to the Social Security Amendments of 1983 (Public Law 98-21 (97 Stat. 65)).

An amount is generally includible in wages for FICA tax purposes at the time it is

actually or constructively paid by the employer and received by the employee. Additionally, wages generally include an amount that an employer contributes to a plan only if the employee agrees to reduce his or her compensation. For income tax purposes, however, section 403(b) provides an exclusion from gross income for contributions made by an employer, including contributions made pursuant to a cash or deferred election or other salary reduction agreement. See section 1450(a) of the Small Business Job Protection Act of 1996 (Public Law 104-188 (110 Stat. 1755)). Conversely, for FICA tax purposes, wages include contributions made by an employer to a section 403(b) contract pursuant to a cash or deferred election or other salary reduction agreement. See S. Rep. No. 98-23, at 40-41, 98th Cong., 1st Sess. (1983). Thus, while section 403(b) excludes from gross income contributions made pursuant to certain cash or deferred elections, such contributions are made by reason of a salary reduction agreement under section 3121(a)(5)(D) and are included in wages for FICA tax purposes. Consequently, this temporary regulation explicitly provides that the term "salary reduction agreement" includes a plan or arrangement whereby a payment will be made if the employee elects to reduce his or her compensation pursuant to a cash or deferred election as defined at §1.401(k)-1(a)(3) of the Income Tax Regulations.

Pursuant to regulation §1.401(k)-1(a)(3)(iv) of this chapter, a cash or deferred election does not include a one-time irrevocable election made upon an employee's commencement of employment with the employer. Similarly, pursuant to section 402(g)(3), while the term "elective deferrals" generally includes any employer contribution to purchase an annuity contract under section 403(b) under a salary reduction agreement (within the meaning of section 3121(a)(5)(D)), an employer

contribution made pursuant to a one-time irrevocable election is not treated as an elective deferral. See H.R. Rep. No. 100-795, at 145, 100th Cong., 2d Sess. (1988) and S. Rep. No. 100-445, at 151, 100th Cong., 2d Sess. (1988) relating to the amendment of section 402(g)(3) by the Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647 (102 Stat. 3342)). Notwithstanding that section 403(b) contributions made pursuant to a one-time irrevocable election are excluded from cash or deferred elections under section 401(k) and from elective deferrals under section 402(g)(3), such contributions are made pursuant to a salary reduction agreement. If the employee had not made a one-time irrevocable election, the employer's cash payment to the employee would be includible in the employee's gross income and in wages for FICA tax purposes. Consequently, this temporary regulation explicitly provides that the term "salary reduction agreement" includes a plan or arrangement whereby a payment will be made if the employee elects to reduce his or her compensation pursuant to a one-time irrevocable election made at or before the time of initial eligibility to participate in such plan or arrangement (or pursuant to a similar arrangement involving a one-time irrevocable election).

A contribution that is made as a condition of employment and that reduces an employee's compensation generally constitutes an employee contribution includible in wages for FICA tax purposes. See section 1015 of the Employee Retirement Income Security Act of 1974 (Public Law 93-406 (88 Stat. 829)) relating to amounts designated as employee contributions under section 414(h) of the Code; see also H.R. Rep. No. 93-807, at 145, 93d Cong., 2d Sess. (1974) wherein Congress stated that '[u]nder present law, contributions which are designated as employee contributions are generally

treated as employee contributions for purposes of the Federal tax law." Code section 414(h)(1) merely codified the existing administrative and judicial treatment of amounts designated as employee contributions. See, for example, Howell v. United States, 775 F.2d 887 (7th Cir. 1985) holding that mandatory contributions to a state retirement plan of amounts designated as employee contributions and withheld from the employee's salary are employee contributions includible in the employee's gross income. Thus, as with employer contributions made pursuant to cash or deferred elections and one-time irrevocable elections, employer contributions that are made as a condition of employment and in lieu of mandatory employee contributions and that reduce an employee's compensation are amounts otherwise includible in wages for FICA tax purposes.

Whether a contribution that reduces an employee's compensation is required by statute, contract, or otherwise, an employee implicitly agrees to the contribution as a condition of employment. The acceptance of employment and the subsequent performance of services manifests the employee's agreement to the contribution. See H.R. Conf. Rep. No. 98-861, at 1415, 98th Cong., 2d Sess. (1984) relating to the amendment of section 3121(v)(1)(B), wherein Congress stated that "[t]he conferees intend that the term salary reduction agreement also includes any salary reduction arrangement, regardless of whether there is approval or choice of participation by individual employees or whether such approval or choice is mandated by State statute." In Public Employees' Retirement Board v. Shalala, 153 F.3rd 1160, at 1166 (10th Cir. 1998), the court noted that "an employee's decision to go to work or continue to work . . . constitutes conduct manifesting assent to a salary reduction." Accordingly, the

court held that a designated employee contribution picked up by an employer with a corresponding reduction in the employee's gross salary constitutes a contribution made pursuant to a salary reduction agreement. Similarly, this temporary regulation explicitly provides that the term "salary reduction agreement" includes a plan or arrangement whereby a payment will be made if the employee agrees as a condition of employment (whether such condition is set by statute, contract, or otherwise) to make a contribution that reduces the employee's compensation.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) and (d) of the Administrative Procedure Act (5 U.S.C. chapter 5) do not apply to this regulation. For the applicability of the Regulatory Flexibility Act (5 U.S.C. chapter 6), refer to the Special Analyses section in the preamble to the notice of proposed rule making published in the Proposed Rules section in this issue of the **Federal Register**. Pursuant to section 7805(f) of the Code, this temporary regulation will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small businesses.

Drafting Information

The principal author of this regulation is Neil D. Shepherd, Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). However, other personnel from the IRS and Treasury Department participated in its development.

List of Subjects in 26 CFR Part 31

Employment taxes, Income taxes, Penalties, Pensions, Railroad retirement, Reporting and recordkeeping requirements, Social security, Unemployment compensation.

Amendments to the Regulations

Accordingly, 26 CFR part 31 is amended as follows:

PART 31--EMPLOYMENT TAXES

Paragraph 1. The authority citation for part 31 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 31.3121(a)(5)-2T is added to read as follows:

§ 31.3121(a)(5)-2T Payments under or to an annuity contract described in section 403(b) (temporary).

(a) Salary reduction agreement defined. For purposes of section 3121(a)(5)(D), the term salary reduction agreement means a plan or arrangement (whether evidenced by a written instrument or otherwise) whereby payment will be made by an employer, on behalf of an employee or his or her beneficiary, under or to an annuity contract described in section 403(b)--

(1) If the employee elects to reduce his or her compensation pursuant to a cash or deferred election as defined at §1.401(k)-1(a)(3) of this chapter;

(2) If the employee elects to reduce his or her compensation pursuant to a one-time irrevocable election made at or before the time of initial eligibility to participate in such plan or arrangement (or pursuant to a similar arrangement involving a one-time irrevocable election); or

(3) If the employee agrees as a condition of employment (whether such condition is set by statute, contract, or otherwise) to make a contribution that reduces his or her compensation.

(b) Effective date. (1) This section is applicable on November 16, 2004.

(2) The applicability of this section expires on or before November 16, 2007.

/s/ Nancy Jardini
Acting Deputy Commissioner for Services and Enforcement.

Approved: November 1, 2004

/s/ Gregory Jenner

Acting Assistant Secretary of the Treasury.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 15, 2004
js-2100

Testimony of Juan Carlos Zarate, Assistant Secretary Terrorist Financing and Financial Crimes U.S. Department of the Treasury Before the Senate Permanent Subcommittee on Investigations of the Committee on Governmental Affairs

Chairman Coleman, Ranking Minority Member Levin, and distinguished Members of the Permanent Subcommittee on Investigations, thank you for inviting me to testify today about allegations of fraud pertaining to the United Nations Oil-For-Food Program (OFF), and the U.S. government's continuing efforts to identify, freeze and repatriate Iraqi assets around the world. In part, my testimony today builds upon my March 18, 2004 testimony before the House Committee on Financial Services, Subcommittee on Oversight and Investigations. I am attaching this prior testimony to my statement today, and request that it be admitted into the record of this hearing.

Since Secretary Snow's call to engage in a worldwide hunt to find and repatriate stolen Iraqi assets to the Iraqi people in March 2003, the Treasury Department and the entire U.S. government have worked intensely to do just that. In the process of facilitating the finding and freezing of nearly $6 billion in Iraqi assets outside of Iraq, the return of over $2.7 billion of that, and the recovery of over $1 billion in cash inside Iraq, we have seen and uncovered the vast corruption of the sanctions regime by Saddam Hussein. The scandal now surrounding the corruption of the economic sanctions on Iraq and the Oil-For-Food Program was the direct result of the treachery and thievery of Saddam Hussein, his sons, and his regime. It was Saddam Hussein who transformed the goodwill of the international community and the international humanitarian effort represented in the OFF Program into a global criminal enterprise. Although there may be many who engaged in sanctions busting and OFF-related kickbacks and schemes, such enterprises were the making of a malevolent Saddam Hussein and his regime.

As Mr. Duelfer noted during his October 2004 testimony before the Senate Armed Services Committee, "After the 1991 war, Saddam established as his prime objective (after survival) the termination of UN sanctions on Iraq, and he weighed all policy actions and steps for their impact on this overarching objective." And, "the steps the Regime took to erode sanctions are obvious in the analysis of how revenues, particularly those derived from OFF, were used."

One of Mr. Duelfer's main points in his reports was to say, "Although Saddam had reluctantly accepted OFF by 1996, he soon recognized its economic value and additional opportunities for further manipulation and influence of the UNSC Iraq 661 Sanctions Committee member states."

In essence then, the Hussein regime created an ongoing system to milk the international sanctions regime of all of the potential value and profits, while his people suffered the consequences. In this sense, as well, he used the implements of the State – the Central Bank, commercial enterprises, and his diplomatic and intelligence assets – to help skirt international restrictions and bring profit to his regime.

The challenge still before us is to help the Iraqi Interim Government and the Iraqi people recover those assets that have yet to be returned to them. Just as important is the need for us to continue to search for assets that we have not yet identified or frozen, since unattended assets could very well be used to fuel the insurgency or terrorist attacks against our soldiers, our Coalition partners, and innocent civilians.

The testimony below provides an overview of our continuing international and interagency mission to recover and repatriate assets looted by the prior regime, in addition to a sense of how the former regime's systematic pilfering of OFF may be funding the Iraqi insurgency and may have assisted Saddam Hussein's efforts to acquire illicit military equipment. Finally, the testimony lays out the continuing Iraqi asset recovery mission, efforts to combat insurgency financing, and how we can reduce the likelihood of another OFF-type scandal in the future.

The Iraqi Asset Recovery Mission

Since March 2003, the U.S. government has focused on the need to find, freeze, and repatriate Iraqi assets from around the world – as well as to find cash and assets within Iraq that were stolen and hidden by elements of the former Hussein regime.

The identification, freezing, and transfer of Iraqi assets remains a priority for this Administration for several reasons. It is critical that the Iraqi people have access to funds that are rightfully theirs – so that they can rebuild a country burdened by a dictator's decades of neglect. This is also essential to prevent any such former regime assets from being used to fund the Iraqi insurgency and to keep them out of the hands of terrorists both within and outside Iraq. The international community cannot permit these assets to be used against our troops, coalition partners, and innocent civilians in Iraq, or potentially to support the nefarious activities of terrorists around the world.

Moreover, the efforts of the international community to identify and repatriate assets stolen by Saddam Hussein and his former regime serve as a strong warning to other tyrants and kleptocrats, who might seek to loot their countries and hide the stolen assets in the international financial system. Lessons learned by the U.S. and the international community in the hunt for Iraqi assets will serve as a model, both for the U.S. Government and for the international community, on how to respond and identify, trace, freeze, and repatriate national patrimony stolen by corrupt despots in the future.

With the June 28, 2004 transfer of sovereignty to Iraq and the establishment of the Iraqi Interim Government (IIG), our efforts to identify and repatriate Hussein-related assets underwent an important transformation. While our asset recovery efforts continue, the primary lead for much of the Iraqi asset recovery has now passed to the IIG, with U.S. and international assistance. U.S. government efforts are now concentrated on supporting those efforts to identify, freeze, and repatriate looted Iraqi assets that have been concealed in the international financial system behind a maze of front companies and straw men. Our ability to view the success of our international efforts to obtain asset transfers is somewhat limited post-transition given control by the IIG of access to information related to the Development Fund for Iraq.

U.S. Leadership in the Asset Hunt

From the beginning, under the President's leadership, the U.S. took the world-wide lead in trying to locate and recover Iraqi assets for the reconstruction of Iraq and the benefit of the Iraqi people. Our efforts to identify and recover Iraqi assets targeted three basic groups of assets:

- Assets frozen in 1990 under UNSCR 661 that are subject to freeze and transfer under UNSCR 1483, as well as additional Iraqi assets covered by 1483;
- Assets that exist in the countries that did business with Iraq either legally or illegally under the UN sanctions regime in place before March 2003 (called "trading states") -- Jordan, Lebanon, Syria, and Turkey;
- Assets looted and hidden outside Iraq by Saddam Hussein and senior members of his former regime, their immediate families, agents, and front companies.

Identifying, tracing, and recovering these funds involves numerous tools – investigatory, diplomatic, and intelligence. The variety of these tools, and the respective expertise of the different departments and agencies in employing them, has required close interagency collaboration. And indeed, our mission, though

daunting and complicated, has achieved success, due in large part to the unprecedented interagency cooperation and coordination of all components of the U.S. Government. I am pleased to have this opportunity to share with you the cooperation we have received from our colleagues in other agencies, and the dedication and bravery of our financial investigators and staff in Baghdad, who have placed themselves in harm's way to accomplish this very complex mission.

Saddam Hussein's Abuse and Avoidance of International Sanctions

Saddam Hussein's regime used a variety of ways to enrich itself with pleasure palaces, expensive cars, and armaments at the expense of the Iraqi people. Our work has helped crystallize how this was done and provided leads for possibly finding and returning some of those funds to the Iraqi people.

Uncovering Hussein-Era Smuggling, Kickback, and Skimming Schemes
Treasury's financial investigation and analysis has helped us develop a better understanding of some of the schemes that Saddam Hussein and his regime used to raise and launder illicit assets, in violation of the UN's Iraqi sanctions regime.

Although we do not know the full universe of Iraqi assets amassed by Saddam Hussein and the former government of Iraq in violation of UN sanctions, our financial investigation and analysis to date indicate that the former regime generated significant revenues from a complex web of financial activities. These activities included kickbacks and skimming funds from the OFF program, as well as oil smuggling outside the OFF program.
A May 2002 GAO report "conservatively" estimates that from 1997 to 2001, the Hussein regime obtained $6.6 billion from oil smuggling and kickbacks from UN-sanctioned oil sales alone. As Mr. Duelfer noted in the Key Findings of his report, the former Iraqi regime used "illicit revenue streams" to amass "more than $11 billion from the early 1990's . . . ."
The following is a summary of the types of schemes the Hussein regime used to avoid the international sanctions regime and to take advantage of the OFF Program.

Unauthorized Surcharge on OFF Oil Sales

In response to Iraq's invasion of Kuwait in August, 1990, the United Nations Security Council imposed sanctions on Iraq that prohibited virtually all commercial transactions with Iraq and required Member States to freeze Iraqi assets. In 1995, building upon previous humanitarian exceptions to the UN sanctions regime, the Security Council further responded to the plight of the Iraqi people by creating the OFF program, which authorized Iraq to sell oil under UN supervision and use the proceeds to purchase goods for the humanitarian needs of Iraqi citizens.

The Hussein regime abused this program to generate illicit revenues by instituting a surcharge scheme on OFF oil sales, beginning in the late 1990s. Pursuant to this scheme, Iraq would charge an extra 10 to 35 cents per barrel "surcharge" on Iraqi oil sales transacted under the OFF program. The size of the "surcharge" varied with the oil shipment's destination. After this became known in late 2000, the U.S. and UK thwarted further surcharges by requiring "retroactive pricing" of Iraqi oil, ensuring that the actual price paid was close to market price. Before the surcharges ended, however, money reportedly was accumulated at Iraqi embassies or deposited into bank accounts in various jurisdictions, and later withdrawn in the form of cash. This cash was then transported back to Iraq and reportedly deposited into the Central Bank of Iraq.

Some of the cash generated by this kickback scheme was not repatriated to Iraq, but instead was used to buy military equipment and other goods prohibited by international sanctions, without the knowledge of the UN.

After Sale Service Fee Scheme

The "after sale service fee" scheme involved kickbacks generated from Iraqi purchases of goods authorized under the OFF program. Under the OFF program, proceeds from official OFF Iraqi oil sales were deposited in a designated UN account, to be used for humanitarian purposes, such as purchasing food and medical supplies for the Iraqi people. To circumvent the restrictions on purchases and generate additional illicit revenue, the Iraqi government ordered each of its ministries to institute a 10% kickback scheme. Vendors selling goods to the Iraqi government were required to inflate the contractual purchase price typically by 10% and kick back the excess charge to the Iraqi government. Thus, a vendor would submit records to the UN indicating that it was selling $110 worth of goods to Iraq, when in fact the vendor was selling only $100 worth of goods, and was returning the additional $10 to Iraq as a kickback. The illicit funds generated by this scheme reportedly were handled similarly to the oil price surcharges, and were either repatriated as cash to Iraq or used to buy goods in violation of UN sanctions. After Iraqi ministries began cooperating with the former CPA, a process was instituted to renegotiate these contracts, with a view of eliminating kickbacks.

Trade Protocol Funds

A third scheme involved the sale of oil in violation of UN sanctions under "trade protocols" with neighboring countries. Beginning in the early 1990s, the former Iraqi government entered into signed official agreements with Jordan, Turkey, and Syria to sell Iraqi oil to each of these countries outside the OFF Program and precursor international sanctions. In each country, the proceeds of the oil sales were split between a trade account and a cash account. Most of the funds (60%-75%) were placed in the "trade account."

Under the trade protocols, the Iraqi government was required to use the money in the trade account to purchase goods from vendors and businesses in the particular protocol-partner country. The money from the cash account (25%-40% of oil sale proceeds) in each of the protocol countries was transferred to bank accounts in Jordan and Lebanon -- usually through bank accounts set up in the names of front companies or individuals, to further disguise the scheme and the movement of the funds. Eventually, the cash account funds generated under all of the protocols were deposited in bank accounts controlled by the Central Bank of Iraq, Rasheed Bank, or Rafidain Bank. After this, the money was withdrawn in the form of cash and transported back to Iraq. When the money reached Baghdad, it was deposited into the vault at the Central Bank of Iraq.

We are using the information about the oil smuggling, kickback, and skimming schemes developed by our investigation to better identify and trace Iraqi assets in several jurisdictions. For example, in one neighbouring country, we have examined 68 accounts of 16 front companies involved in the trade protocol skimming scheme, and are seeking to trace the flow of this money.

Understanding these enrichment schemes used by the Hussein regime to enrich itself provides not only leads, but also a clear case study as to how a notorious regime will go about abusing the goodwill of the international community to enrich and embolden itself.

Front Companies

We know that the Hussein regime relied on front companies that it secretly owned or controlled to engage in illegal commerce and to move funds outside of the gaze of the international community. The assets of front companies are subject to freezing and transfer to DFI under UNSCR 1483, Paragraph 23. Our investigation has identified front companies involved in transactions under the trade protocols, as well as other commercial activities. We have designated many such front companies used by the regime to engage in commercial activity.

OFF-Related Funds and Acquisition of Illicit Military Goods

This Subcommittee has asked that I address the extent to which the OFF Program was allegedly used by Saddam Hussein to obtain funds for prohibited transactions to purchase military equipment and other goods prohibited under UN sanctions. Treasury and U.S. government investigations, including the Duelfer Report, have concluded that Saddam Hussein and regime elements did, in fact, seek to abuse OFF in order to obtain illicit military equipment.

As noted in the Duelfer Report, "The steps the Regime took to erode sanctions are obvious in the analysis of how revenues, particularly those derived from the Oil-for-Food program, were used. Over time, sanctions had steadily weakened to the point where Iraq, in 2000-2001 was confidently designing missiles around components that could only be obtained outside sanctions."
Clearly, Saddam Hussein and his cronies endeavored to abuse the OFF program to the best of their abilities. It is nonetheless worthwhile to note the aggressive U.S. government reaction to stanch further abuses by remaining regime criminals. Following are three examples of Treasury actions to designate, under EO 13315 and the UNSCR 1483, regime elements that illegally abused OFF and engaged in other illegal activity to obtain illicit military materiel. These designations occurred on April 15, 2004, and have been adopted by the UN.

- AL-WASEL AND BABEL GENERAL TRADING LLC

Information available to the U.S. indicates Al Wasel and Babel was controlled by, and acted for or on behalf of, senior officials of the former Iraqi regime, including Iraqi Deputy Prime Minister and Finance Minister Hikmat Mizban Ibrahim al-Azzawi. Al-Azzawi has been named by the United Nations as a senior official of the former Iraq regime on the list established pursuant to UNSCR 1483.

Much of this information was developed during an investigation by U.S. authorities on Al Wasel and Babel's attempts to procure a sophisticated surface-to-air missile system for Iraq. Other information developed by the U.S. Government indicates Al Wasel and Babel played a key role in the former Iraqi regime's schemes to obtain illicit kickbacks on goods purchased through the U.N. Oil-for-Food (OFF) Program.

• AL-ARABI TRADING COMPANY

Al-Arabi is the ultimate holding company for a variety of Iraqi front companies that engaged in military procurement for the former regime. Al-Arabi owns 99 percent of the UK-incorporated company Technology and Development Group Limited (TDG), which in turn owns TMG Engineering Limited. TDG and TMG were involved in Iraq's arms procurement network during the late 1980s.

• AL-BASHAIR TRADING COMPANY

Al-Bashair, directed by Munir Al-Qubaysi, reportedly acted as the largest of Iraq's arms procurement front companies and was involved in a range of sanctions busting and corruption schemes on behalf of the regime. Al-Bashair reported directly to the Organization of Military Industrialization, which was responsible for Iraq's military procurement programs and was headed by former Deputy Prime Minister Abd-al-Tawab Mullah Huwaysh. Huwaysh has been named by the U.N. as a senior official of the former Iraq regime on the list established pursuant to UNSCR 1483.

Reporting based on documents removed from Al-Bashair's headquarters describes a variety of deals involving sham contracts, kickbacks, falsified export documentation and money laundering designed to deceive U.N. inspectors and deliver, among other things, missile components, surveillance equipment and tank barrels to the former Iraqi regime. The company also allegedly helped seniors officials of the former regime launder and hide Iraqi government funds. Unfortunately, it is not possible to know how much of the funds from illicit activities can be recouped by further U.S. government, Iraqi, and international efforts. Nevertheless, the United States government, working with the IIG and its successor, intends to continue its mission to identify and recoup hidden funds with all the tools at our disposal -- which include freezing actions, designations, and providing enhanced assistance to the Iraqis in their forensic accounting and asset investigatory efforts.

Important Progress to Date

We have achieved important success in returning assets to the Iraqi people and in unearthing the schemes and networks used by the regime to steal from Iraq.

• Since March 20, 2003, with U.S. leadership, over $2 billion of Iraqi assets have been newly identified and frozen outside the U.S. and Iraq.
• Since March 20, 2003, approximately $847 million have been transferred by other countries to the Development Fund for Iraq (DFI). In total, the U.S., foreign countries, and the Bank for International Settlements have transferred back to Iraq over $2.7 billion in frozen Iraqi funds;
• Approximately $1.3 billion in cash and valuables has been recovered in Iraq.
• We continue to identify key individuals and entities who acted as operatives for Saddam Hussein. As of today, the Department of the Treasury has designated 30 immediate family members of senior officials of the former Iraqi regime pursuant to Executive Order 13315. The U.S. has submitted these individuals, as well as the identities of 191 Iraqi parastatal (quasi-government) entities, to the United Nations, and requested that they be listed by the UN 1518 Committee under UNSCR 1483. The 1518 Committee added these submissions to a list of senior Iraqi officials and entities that we previously joined with the UK and France in submitting to the UN for listing under UNSCR 1483;
• In Iraq, our financial investigators have conducted over 85 interviews of key individuals who have information relating to Iraqi assets or possible insurgency financing, ranging from the top ministers of the State Oil Marketing Organization (SOMO), to the laborers who buried Saddam's U.S. currency. Our investigators continue to seek out and interrogate key financial facilitators like accountants and bankers, who have knowledge about the movement of Iraqi assets within and outside of Iraq. Under IRS-CI questioning, these witnesses have identified assets that can be recovered for the new Iraqi government. We aggressively pursue any leads in tandem with the IIG.
• In Iraq, we are working closely with the Department of Defense, the Federal Reserve Board, and the Bureau of Engraving and Printing to trace U.S. currency seized in Iraq, in order to determine the flow of funds that may support the insurgency.
• Our designation of Wasel and Babel as an Iraqi front company, and successful submission of this name to the United Nations for listing under UNSCR 1483, resulted in the UAE taking action against Wasel and Babel and freezing its assets.
• While searching for Iraqi assets abroad, IRS-CI agents determined that the former Iraqi Ambassador to Russia had stolen $4 million in Iraqi assets that had been entrusted to him. As a result, that amount has been frozen in Russia, and we are working with the Iraqis and Russians to have it repatriated. On August 2, 2004, we designated this Ambassador under EO 13315, and submitted his name to the United Nations 1518 Committee.
• While continuing to work closely with the governments of Liechtenstein, Switzerland, and Jordan, we have taken aggressive action to recover one of Saddam's Falcon 50 corporate jets and to uncover a financial network that had been used by the Iraqis to move money and people in the heart of Europe. As a direct result of these efforts, this former symbol of the Hussein regime will be returned to the Iraqi people. This past week, the Falcon 50 was released from Jordan, and flown to Switzerland for refitting.
• The financial investigation teams also uncovered important leads for other IRS-CI financial investigations that have been pursued in jurisdictions outside Iraq. We identified bank accounts and other assets held in over twenty countries, including Switzerland, France, Germany, Liechtenstein, Russia, Spain, Egypt, Thailand, Indonesia, Lebanon, Belarus, Iran, South Korea, Malaysia, Japan, Morocco, Saudi Arabia, UAE, British Virgin Islands, Jordan, Syria and Yemen. We will work with the IIG to ensure that these assets are accounted for and returned to the Iraqi people.
• As I previously testified, as a result of interagency cooperation and investigative and other efforts in Baghdad and at Headquarters, the Departments of Treasury and State have provided identifying information on over 570 identified Iraqi bank accounts in 41 countries for review and follow-up. Those accounts were identified as belonging to the Central Bank of Iraq, Rafidain Bank, and Rasheed Bank. Again, we are working with the IIG to pursue these accounts.
We continue to devote resources to this effort:
Treasury Resources Dedicated to the Mission
• As of November 2004, an IRS attaché has been stationed at the US embassy in Baghdad. He is following up on designations of former regime individuals and entities, coordinating the U.S. and Iraqi government efforts to identify and recover assets both inside and outside Iraq, uncover new front companies and pursue all possible financial leads involving the ongoing insurgency in Iraq.
• IRS-CI Agents, embedded with the U.S. military in Baghdad, are working to counter insurgency financing, as well as continue to seek out information concerning former regime assets. As the Department of Defense identifies financially related information, the IRS personnel are integrated into the process of delivering relevant information to competent authorities for appropriate handling. In addition, the IRS Agents are helping to train their Iraqi counterparts -- so that over time, the Iraqis can carry out their own independent financial investigations.

• In addition to the IRS attaché, a Department of Treasury attaché has also been assigned to the U.S. embassy in Baghdad. The Treasury attaché coordinates activities, along with the IRS attaché and their Iraqi counterparts, to find hidden assets from the former Hussein regime that may still be in the country. They are also helping the Iraqis craft a legal regime that can further catalyze the process of confiscating assets from the former regime.
• Treasury personnel continue to work closely with the military, especially where bulk U.S. currency is identified. The military passes relevant financial information back to the Federal Reserve Board of Governors and the Bureau of Engraving and Printing, in order to trace the flow and source of specific funds.
• An Office of Foreign Assets Control (OFAC) Analyst has been stationed at CENTCOM in Tampa, Florida to work closely with military personnel on insurgency financing matters.
International Cooperation and Challenges

The United Nations Role in the Asset Recovery Process

The United Nations has played an important role in the Iraqi asset recovery process. UNSCRs 1483 and 1546 require all member countries to identify, freeze, and promptly transfer to the Development Fund for Iraq (DFI) Iraqi assets in their jurisdictions, including assets held in the name of the Iraqi government, and assets held by or on behalf of Saddam Hussein, his regime cronies and their immediate family members, front companies, or agents. The United Nations' 1518 Committee is responsible for implementing these UNSCRs and is responsible for maintaining the international list of individuals and entities whose assets are covered by the freeze and transfer requirements of UNSCRs 1483 and 1546.

UN designations are an important tool in the Iraqi asset investigation. UN designations facilitate international cooperation with our own investigatory efforts to identify Iraqi assets located in other countries, and prod the international community to identify, freeze, and transfer Iraqi assets in their jurisdictions. To date, the U.S. has submitted the names of 232 Iraqi-related entities and individuals, comprised of 191 parastatals (quasi-government entities), 30 individuals, and 11 front companies, to the United Nations, with the request that they be listed under UNSCR 1483 by the 1518 Committee. To date, the UN 1518 Committee has adopted 228 of these submitted names, including 191 parastatals, 27 individuals, and 10 front companies.

The UN 1518 Committee has not yet designated the names of three individuals and a front company that the U.S., along with the U.K and the Interim Government of Iraq, submitted to the 1518 Committee on August 2, 2004. The names proposed for designation on August 2 included two former Iraqi ambassadors, one of which is the former Iraqi ambassador to Russia I referenced already, who used their senior positions to engage in a variety of illicit activities, ranging from financing foreign anti-Coalition fighters during Operation Iraqi Freedom, to the embezzlement of regime funds.

The proposed designations also included a Bangkok-based company serving as a front for the Iraqi Intelligence Service (IIS) during the former regime, along with its owner and director, a former IIS officer suspected of planning attacks in January 2003, against U.S. citizens in Thailand. The UN 1518 Committee has not yet adopted these names because Russia has placed a hold on them and prevented Committee action. The Departments of State and of the Treasury have been working diligently to convince Russia to lift its hold. We hope that the UN designations will spur other countries to undertake independent investigations, publish similar listings, and return Iraqi funds to the DFI, consistent with the requirements of UNSCRs 1483 and 1546.

Indeed, as a direct result of UN designations, Switzerland has frozen and is in the process of transferring $140 million in Iraqi assets held by designated front companies and individuals, and the UAE has taken action against Wasel and Babel, a designated front company.

European and other governments have stated that they have been hampered in implementing UNSCR 1483, which calls for the identification of Iraqi-related accounts and blocking and return of assets, because under their domestic laws, nations cannot freeze assets in the absence of a specific listing of individuals and entities at the United Nations. We therefore will continue to submit names to the UN for listing as a way of helping other countries fulfill their obligations to identify,

freeze, and transfer Iraqi assets. The listings to date are not intended to be exhaustive, and we will work with the IIG to identify additional individuals and entities for US designation and UN listing.

I would like to re-emphasize, however, that the U.S. strongly believes that, while U.N. listing is helpful, UNSCRs 1483 and 1546 require member states to freeze and transfer all covered assets, independent of whether they have been identified by the UN. This is an ongoing UN obligation, and one which the Iraqis themselves are beginning to promote.

The General International Effort

Although we have made great progress in identifying, freezing, and transferring Iraqi assets to the DFI, largely with the help of allies abroad, there is still much to do. As indicated above, since March 20, 2003, over $2.7 billion of Iraqi assets have been identified and frozen outside the U.S. and Iraq. The U.S. has led the effort to prompt the identification and return of frozen Iraqi funds around the world, resulting in approximately $847 million dollars being transferred by other countries to the DFI. Ten foreign countries are confirmed to have transferred amounts into the DFI, and more have pledged to do so. For example, as of the June 28 transition, Japan had transferred $98.1 million; the United Kingdom had transferred $186.8 million; Jordan had transferred $250 million; and Tunisia had transferred $8 million. With the help of other countries, and in tandem with the IIG, we hope to uncover additional accounts and identify numerous companies and individuals who were part of the regime's financial web. Even willing countries, however, face challenges to freezing and repatriating Iraqi assets:

- Sanctions Implementation. The lack of a defined government agency in most countries that administers sanctions in a focused, long term manner has led to less organized efforts in these countries. In addition, a poor accounting of what Iraqi assets existed in countries around the world and the shifting nature of some of those accounts presented problems of accounting at the outset of our global efforts. These factors, in combination in certain instances with less developed financial systems, makes locating and securing assets more problematic than in the U.S.
- Legal Difficulties. Countries have legal problems with taking title to property and immediately repatriating it to Iraq. The mechanism and obligation established in UNSCR 1483 to dealing with Iraqi assets represents a novel, aggressive approach to immediate repatriation of assets under international law. As a result, some countries are in the process of examining what legal measures exist or need to be created within their domestic systems to enable them to comply fully with the requirements of 1483. Other countries are determining what processes need to be put in place to transfer Iraqi assets. We are working with governments around the world and the Iraqis to find legally viable ways to transfer funds to the DFI.
- Claims. In some jurisdictions, the existence of extensive third party claims on Iraqi money has complicated asset recovery. Under UNSCR 1483, countries are obligated to return the funds unless such funds are themselves the subject of a lien or judgment that predated the Resolution. While this novel legal mechanism is intended to forestall adjudication of unperfected legal claims until a later date, some countries have insisted on addressing what we consider to be unperfected commercial and other claims against Iraqi funds in their banking systems as a condition of transferring assets to the DFI. We have been working with the Iraqis and various countries to try to resolve these issues and maximize the amount of money transferred to the DFI.

As with all of these efforts, international outreach and diplomatic troubleshooting are ongoing throughout the world. We are continuing to work with our partners abroad to obtain the return of previously identified Iraqi funds and to identify suspect Iraqi accounts.

Interagency Cooperation

The complex challenge of uncovering the trail of Iraqi assets demands that all relevant government agencies work together in a comprehensive and coordinated manner, and share and enhance information obtained from whatever source. That

is precisely what we have been doing, and will continue to do.

In particular, we have established two interagency mechanisms that serve as a model for interagency coordination -- the Iraqi Asset Working Group and the DIAC Fusion Center.

Iraqi Asset Working Group

The interagency Iraqi Asset Working Group (IAWG), which I chair, includes Treasury components – my Office (Terrorist Financing and Intelligence (TFI)), IRS-CI, OFAC, and FinCEN; the Departments of State, including USUN; Justice, including the FBI; Defense; Homeland Security; the intelligence community and the NSC. The Iraqi Asset Working Group brings the unique expertise of each of these agencies and departments to bear on the hunt for Iraqi assets, as well as on the sources and movements of funds for the Iraqi insurgency. The group oversees and coordinates the U.S. Government's international search for Iraqi assets, and also helps coordinate insurgency funding efforts.
Among other things, we set priorities for the international forensic investigations, direct financial investigation teams to various jurisdictions, set priorities for diplomatic outreach, discuss and analyze possible UN and domestic designations under EO 13315 and UNSCR 1483 of Iraq-related individuals and entities, and help coordinate activities among former CPA and Iraqi officials to facilitate action by the Iraqis to transfer assets to the DFI. The IAWG has proven to be an efficient and highly effective means for handling issues as they arise. It has allowed us to closely monitor investigative and diplomatic developments, track our progress, and determine our next steps by group consensus. And of course, it provides an ideal mechanism for efficiently sharing relevant information across the U.S. Government.

In addition to our regular weekly meetings, the inter-agency group communicates extensively and intensively. We draft and clear papers and cables together, target assets and jurisdictions for investigation, help investigation teams obtain required military training and deployed, share intelligence, diplomatic, and investigatory information, and otherwise conduct the business of the group in a detailed and collegial way.
Financial Component at DIAC Fusion Center

In addition to the Iraqi Asset Working Group, Treasury and the Defense Department have established a financial intelligence and investigation component at the Fusion Center at the Defense Intelligence Analysis Center at Bolling Air Force Base. The financial component is staffed primarily by IRS-CI agents, and operates under the auspices of the Iraq Survey Group. The Fusion Center receives intelligence information and investigative leads obtained in Iraq and other foreign jurisdictions relating to Iraqi assets and Iraqi insurgency financing.

This information is centralized, analyzed, and shared with all relevant intelligence and law enforcement entities. Leads are then sent back to the field, to trace and recover Iraqi assets worldwide, as well as secure information concerning insurgency financing. Where appropriate, we provide leads to foreign governments for follow-up and freezing of hidden Iraqi assets.

This approach is designed to produce new leads on an ongoing, interagency basis, and helped us pierce the complex layers of transactions involved in the international flow of Iraqi assets. The synergy between the intelligence functions, the Department of Defense, and the Treasury components has led to concrete results in the field.

The international and interagency issues I have just covered offer only a snapshot of the important U.S. government and international work that has taken place and is still underway to find and return Iraqi funds to the Iraqi people, and to identify insurgency financing. When we turn to consider the sophistication of Saddam Hussein's tactics to exploit OFF, we can more fully appreciate the difficulty of our work and the significance of our accomplishments.

OFF (OFF) Program – Treasury's Role

It bears mentioning what Treasury's role has been with respect to the OFF Program. As noted above, the United States and the international community acting through the United Nations, established the OFF Program and permitted companies to do business with Iraq under that program and appropriate licensing. A recounting of Treasury's involvement with the OFF Program may be helpful in the context of this hearing.

Following the Iraqi invasion of Kuwait on August 2, 1990, the President, under the International Emergency Economic Powers Act (IEEPA), declared a national emergency and issued Executive Order 12722, blocking all Iraq and Kuwait government-controlled assets within the U.S. and imposing an immediate and comprehensive trade embargo. On August 6, 1990, the UN Security Council adopted UNSCR 661, which imposed sweeping economic sanctions against Iraq and occupied Kuwait. On August 9, 1990, the President issued Executive Order 12724, under the authority of both IEEPA and the UN Participation Act, broadening the U.S. sanctions so that they would fully conform to UNSCR 661. Executive Orders 12722 and 12724 essentially prohibited the exportation and importation of goods, services, and technology; dealing in property of Iraqi origin; transactions related to travel and transportation; performance of contracts; and the commitment or transfer of funds or economic resources to Iraq. OFAC had primary responsibility within the executive branch for implementation of Executive Orders 12722 and 12724.

OFAC administered the sanctions program against Iraq through the Iraqi Sanctions Regulations that implemented Executive Orders 12722 and 12724. 31 CFR § 575.205 prohibited the exportation of any goods, technology or services from the U.S. to Iraq, except for donated articles intended to relieve human suffering that were authorized by OFAC on a case-by-case basis. Under 31 CFR §§ 575.520 and 575.521, U.S. persons could apply to OFAC for authorization to export donated food and donated supplies intended strictly for medical purposes to Iraq. This was the sanctions landscape prior to the institution of OFF.

As this Committee well knows, in April 1996, the UN Security Council adopted Resolution 986 (OFF), which permitted the former Government of Iraq (the "GOI") to sell and export from Iraq two billion dollars worth of petroleum and petroleum products every six months and to purchase and import humanitarian materials and supplies to meet the essential needs of the civilian population in Iraq. All such activities were to be under UN supervision. In December 1996, the first oil sold under OFF was loaded at the Mina-al-Baker terminal in Iraq. Via Federal register publication of December 11, OFAC amended its Iraqi sanctions regulations to provide statements of licensing policy with respect to OFF. 31 CFR §575.522, for the first time, authorized U.S. persons to enter into executory contracts with the GOI for the purchase of Iraqi-origin petroleum and petroleum products, and to trade in oilfield parts and equipment and civilian goods: including medicines, health supplies and foodstuffs.

U.S. persons were also authorized to enter into executory contracts with third parties outside OFAC's jurisdiction that were incidental to permissible executory contracts with the GOI. U.S. persons, however, were not authorized to engage in transactions related to travel to, or within, Iraq for the purpose of negotiating and signing executory contracts. To mitigate this handicap, OFAC issued a December 12, 2003 clarification, which stated that U.S. persons were authorized to enlist and pay the expenses of non-U.S. nationals to travel to Iraq on their behalf for the purpose of negotiating and signing executory contracts.

U.S. persons who had entered into executory contracts with the GOI for the sale of civilian goods and oilfield parts and equipment were required to submit an application to OFAC for a case-by-case review and approval prior to performance of each contract. As part of the review process, each application was referred to the Department of State for policy guidance as to whether performance of the contract should be authorized, and for forwarding a copy of the contract to the UN 661 Committee for approval of payment upon delivery of the goods to Iraq. OFAC made a final determination with respect to licensing the applicant to perform the terms of that particular contract only after receiving from State a copy of the 661 Committee approval of payment and a separate memorandum from State recommending that a license be issued to the applicant.

Under this OFF regime, OFAC issued approximately 1050 licenses to U.S. persons for various aspects of the OFF program, primarily under three provisions of the Regulations. Sales to the GOI of oilfield parts and equipment and humanitarian aid were subject to licensing under, respectively, 31 CFR§§ 575.524 and 575.525. Three U.S. companies were authorized under § 575.524 to sell oilfield parts and equipment directly to the GOI, and 23 U.S. companies were authorized under § 575.525 to make direct sales to the GOI of humanitarian aid. A total of 48 licenses were issued to these 26 U.S. companies, authorizing performance of sales contracts entered into with the GOI. In addition, nine licenses were issued to U.S. companies, authorizing the performance of contracts previously-approved by the UN 661 Committee for the purchase of Iraqi-origin petroleum or petroleum products directly from the GOI.

Many more U.S. persons were authorized to engage in trade transactions with third country entities that were contractors or subcontractors with the GOI. Under 31 CFR 575.523, OFAC issued 13 licenses to seven U.S. persons for activities that facilitated the purchase of Iraqi oil by third parties. The remaining approximately 1000 licenses authorized transactions by U.S. persons with third parties related to sales to the GOI, or authorized non-U.S. persons to engage in transactions involving U.S.–origin goods or components being supplied to the GOI.

31 CFR § 575.526 provided a general license authorizing U.S. persons to import Iraqi-origin petroleum and petroleum products into the U.S. if the goods in question had been approved for purchase and export from Iraq by the United Nations 661 Committee. In a January 1997 memorandum from OFAC to the U.S. Customs Service (Customs), OFAC recommended that Customs require U.S. importers to provide a copy of the 661 Committee approval for which the petroleum or petroleum products in question comprised all or a part of the original purchase. In addition, OFAC suggested that Customs might request from the importer a brief statement describing the type and amount of the imported products and affirming that, to the best of the importer's knowledge and belief, the imported petroleum or petroleum products comprised all or a portion of the purchase covered in the accompanying UN document. In a memorandum to OFAC dated March 6, 1997, Customs confirmed that it had issued instructions to Customs field offices pursuant to the guidance contained in OFAC's memorandum.

Terrorist Financing Connections

This Subcommittee has asked important and pointed questions about the extent to which monies pilfered by the Iraqi regime from OFF are being used to fund the Iraqi insurgency or terrorist groups. Although I cannot discuss ongoing investigations, it is certainly possible that former Iraqi regime elements, within and outside of Iraq, are using available assets to fund insurgency or terrorist activity. While we do not know the extent to which the former Iraqi regime derived such funds from OFF, we do know that Saddam Hussein and his regime cronies used a variety of illicit schemes, including OFF surcharges and kickbacks, as well as the proceeds of illicit oil smuggling, to profit the regime. It is likely that some of these funds ended up in the coffers that are now available to fuel the Iraqi insurgency and terrorism inside and outside of Iraq. It is this possibility that continues to motivate and drive our analytic, investigatory, and diplomatic efforts to unearth and freeze these assets.

Insurgency Finance Task Force in Iraq

Following the return of sovereignty to Iraq, insurgency financing has become of paramount concern to the Treasury Department, and we are aggressively addressing it with our interagency and international partners. In addition to fielding our own forensic investigation teams dedicated to identifying, tracing, and recovering Iraqi assets located outside Iraq, as soon as it was formed, we sent an IRS-CI investigatory agent to participate with the FBI and others in the Defense Joint Interagency Task Force on the Iraqi Insurgency, operated by CJTF-7, the Coalition Command Authority in Iraq.
The financial component of this Task Force has been tasked to identify and recover funds that could be used to fuel the Iraqi Insurgency and attack our troops, our Coalition partners, Iraqi officials and police, and innocent Iraqi civilians. More recently, we have deployed teams of IRS-CI agents to the Insurgency Task Force. Since the June 2004 transfer of sovereignty to Iraq, all IRS Agents are working with CJTF-7, and we will continue to rotate in teams of IRS agents to the Insurgency

Task Force. The recently-appointed IRS Attaché is likewise heavily engaged in these efforts.
The participation of IRS forensic investigators on the Insurgency Task Force provides a valuable opportunity to coordinate our ongoing asset hunt – especially for hidden assets held by or on behalf of Former Regime Elements – with the overlapping insurgency finance investigation. Finding and recovering Iraqi assets, both inside and outside Iraq, is instrumental in keeping this money from being used for nefarious purposes, whether by Iraqi insurgents, terrorists, or other criminals.

Working with the Iraqi Interim Government to Focus on Asset Recovery

Since the June 28 handover of authority to the Iraqis, we have been working intensively with the IIG to continue the search for Iraqi assets and to aggressively attack the financial underpinnings of the insurgency and of terrorists that are attacking U.S. civilians and military personnel in Iraq. We have already shared extensive information culled from our own Iraqi asset "trace and chase" effort, to help the IIG take over primary responsibility for recovering frozen assets and addressing outstanding claims against those assets. We have met with senior Iraqi officials – help them coordinate their asset recovery efforts and to concentrate their attention on high-value engagements. In this regard, we have invited the IIG to send a delegation of financial experts to the U.S. to receive advanced forensic investigation training, with the aim of supporting the IIG's efforts to trace and recover additional assets both inside and outside Iraq. Our IRS-CI investigators on the ground in Iraq are working in tandem with Iraqi law enforcement colleagues to target insurgency financiers and identify and secure assets that are funding the insurgency.

We are also focused on setting Iraq on the right path to deal with the issues of financial integrity and oversight. Our experience around the world on issues related to money laundering and terrorist financing teaches us that Iraq must develop the strongest possible financial infrastructure – both formal and informal – as quickly as possible. We know that this requires robust anti-money laundering and anti-terrorist financing laws and regulations. All components of the Treasury Department are working with the Departments of Justice and State, the Federal Reserve, the CPA and Iraqi Governing Council and Ministries to put in place mechanisms to protect the Iraqi financial system, including charities, money exchangers and hawaladars, bulk cash couriers, money remitters, and the banking industry itself, from abuse by financial criminals and terrorists. We are also working with the IIG to promote transparency and to combat government corruption, so that the kinds of debaucheries that undermined the OFF program will be less likely to occur.

This entire endeavor has taught us some important lessons and is sending a clear message around the world. First, these efforts provide a model for U.S. interagency cooperation. The use of all of the expertise and tools available to the U.S. government is critical when dealing with complicated matters such as this. Second, we have set a template for launching aggressive international efforts to respond to requests by other countries, or by the international community as a whole, to find and repatriate assets stolen by foreign officials and placed in the international financial system.

This effort, in combination with other steps we have taken in this arena, such as the conclusion of the negotiations of the UN Anti-Corruption Convention, will strengthen international mechanisms to locate, seize and return assets stolen by kleptocrats. In addition, Treasury has issued a regulation implementing Section 312 of the USA PATRIOT Act, which requires U.S. financial institutions to guard against accepting the proceeds of foreign corruption from kleptocrats, their families, and other associated "politically exposed persons" in the first place.

We are not alone in pursuing this type of regulatory requirement. In Switzerland, for example, recent amendments to Swiss anti-money laundering laws and regulations are designed to enhance protections against accepting the proceeds of foreign corruption from politically exposed persons. Additionally, the Financial Action Task Force (FATF), as well as groups of private financial institutions, has addressed the need for financial institutions to guard against accepting funds looted by other countries' political figures.

The Department of the Treasury is in the process of using these important international steps and the model of the Iraqi asset hunt to broaden efforts to recover funds looted by other despots – as in the case of Charles Taylor. The lessons we have learned, and will continue to learn as the hunt proceeds, are valuable. And we are eager to continue to put them to good use.

All of this sends a clear message to the tyrants of the world. We will find your money and will return it to the people from whom you've stolen it.

Conclusion

Every day, we are learning more about the maze of Hussein's money trails, and every day, we take concerted efforts to get other countries to identify Iraqi assets, transfer the funds that they have already frozen, and keep funds out of the hands of the insurgency or terrorists. The investigation, especially as it turns increasingly to the hidden, unofficial assets, is a time-consuming, laborious, and potentially dangerous task. This is a process that, by its very nature, will take time. We owe a debt of gratitude to the civilians – especially the IRS-CI agents in Baghdad – and our troops on the ground in Baghdad, who are engaged in these worthy and important efforts. We appreciate the support of Congress in these efforts and look forward to working with you.

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

November 15, 2004
2004-11-15-15-30-13-18946

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $85,088 million as of the end of that week, compared to $85,029 million as of the end of the prior week.

I. Official U.S. Reserve Assets *(in US millions)*

	November 5, 2004			November 12, 2004		
TOTAL	85,029			85,088		
1. Foreign Currency Reserves	**Euro**	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
a. Securities	11,739	14,972	26,711	11,797	14,906	26,703
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	11,562	3,009	14,571	1,598	2,996	14,564
b.ii. Banks headquartered in the U.S.			0			0
b.ii. Of which, banks located abroad			0			0
b.iii. Banks headquartered outside the U.S.			0			0
b.iii. Of which, banks located in the U.S.			0			0
2. IMF Reserve Position [2]			19,609			19,636
3. Special Drawing Rights (SDRs) [2]			13,095			13,112
4. Gold Stock [3]			11,043			11,043
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets

	November 5, 2004			November 12, 2004		
	Euro	**Yen**	**TOTAL**	**Euro**	**Yen**	**TOTAL**
1. Foreign currency loans and securities			0			0
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the U.S. dollar:						
2.a. Short positions			0			0
2.b. Long positions			0			0
3. Other			0			0

III. Contingent Short-Term Net Drains on Foreign Currency Assets

	November 5, 2004			November 12, 2004		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Contingent liabilities in foreign currency			0			0
1.a. Collateral guarantees on debt due within 1 year						
1.b. Other contingent liabilities						
2. Foreign currency securities with embedded options			0			0
3. Undrawn, unconditional credit lines			0			0
3.a. With other central banks						
3.b. With banks and other financial institutions						
Headquartered in the U.S.						
3.c. With banks and other financial institutions						
Headquartered outside the U.S.						
4. Aggregate short and long positions of options in foreign						
Currencies vis-à-vis the U.S. dollar			0			0
4.a. Short positions						
4.a.1. Bought puts						
4.a.2. Written calls						
4.b. Long positions						
4.b.1. Bought calls						
4.b.2. Written puts						

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values. Foreign Currency Reserves for the latest week may be subject to revision. Foreign Currency Reserves for the prior week are final.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.