Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Testimony of Secretary of the Treasury, John Snow
On the State of the International Financial System
May 17, 2006

Today the Financial Services Committee meets to hear the annual report of the Secretary of the Treasury on reform of the International Monetary Fund (IMF) and the state of the international financial system. This hearing is mandated by the Fiscal Year 1999 foreign operations appropriations bill, which sought to ensure that the IMF would effectively use the funds appropriated to it on behalf of the United States. Congress included that requirement at the request of Representative Mike Castle, a senior Member of this Committee.

I look forward to your testimony, and I am pleased to see my good friend John Snow, who is serving this Administration so well. Certainly, our strong and growing economy is, in part, a testament to the steady hand of John Snow at the Treasury Department.

The traditional focus of the Secretary's testimony at this hearing is on reform of the international financial institutions. This has been a longstanding priority for the Bush Administration, and the President's Fiscal Year 2007 budget request for Treasury International Programs reflects a continued commitment to these reforms. Despite foreign policy challenges abroad, President Bush has remained committed to ensuring that the multilateral development banks work towards relieving the burden of unsustainable debt for countries with sound, pro-growth economic policies.

I have always believed that free trade and growth through exports are the fundamental building blocks for economic prosperity and democracy, both at home and abroad. The Treasury Department has supported the establishment of programs aimed at creating market-based economies that are open to trade. I am encouraged by the work of World Bank President Paul Wolfowitz in eliminating corruption and promoting a level playing field at the international lending institutions.

Level playing fields are vital to fair and free trade, and with that in mind I am particularly looking forward to Secretary Snow's comments on last week's report to Congress on international economic and exchange rate policies. After years of ignoring free market principles, the Chinese have finally begun to relax the hold over their currency. In the past this currency control has created unfair advantages for Chinese exporters, all too often at the expense of American businesses.

Since the middle of last year, however, China has instituted a 2.1 percent revaluation of their currency against the dollar and has introduced various regulatory measures to free up capital flows across its borders. The Treasury report noted that China needs to move quickly to introduce exchange-rate flexibility at a far faster pace, a subject which is of great interest to this Committee in light of continued engagement with China and maximization of this important trading relationship.

Though China is the country so often cited as driving the global economy, we must not lose sight of America's trade relationships with Europe, Japan and our neighbors to the north and south. U.S. corporations continue to make strides in productivity, and a rising global economy has created myriad opportunities for U.S. multinational corporations and for investors looking for growth opportunities in foreign markets.

Particularly in Latin America, remittances have generated real economic growth in emerging markets. Transactions such as these between established and emerging economies foster growth in both and merit ongoing consideration as we look to reform the international financial system.

On another topic, this year my friend and colleague Deborah Pryce, Chairman of the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology, led the way in reauthorizing the Multilateral Investment Fund – the MIF -- at the Inter-American Development Bank. This is a good time for Treasury to take all possible steps to start similar programs at the other development banks. The MIF is an outgrowth of the Enterprise for the Americas, initiated by the first President Bush. While this is obviously now a multilateral effort, the MIF is in many ways the perfect exporter of U.S. values – a forum where a good idea, hard work and fair access to credit can provide a healthy wage for any number of people.

The MIF is an incredible success story. Combining modest grants to small and medium-sized businesses, this program has encouraged private sector development and leveraged the power of remittances throughout Central and South America. The result has been the growth of small businesses here and abroad. And as we all know, small businesses are the engine of job growth.

We are all committed to the big projects spearheaded by development banks – water and sewer system construction, infrastructure development, the building of hospitals. Given the bang-for-the-buck we get out of the MIF at $25 million a year, however, we should seek to clone that program at the other development banks and try to do the same thing bilaterally through the Millennium Challenge Corporation and other international financial institutions. We must constantly be on the lookout for programs such as this that exhibit the best practices of government here and abroad.

Secretary Snow, I commend your continued oversight over the reform of the international financial system and your ongoing commitment to opening markets for our financial services firms abroad. Welcome back to the Financial Services Committee.