DEPARTMENT OF THE TREASURY
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The Honorable John W. Snow
Prepared Remarks to
The National Chamber Foundation's Outlook 2006: The State of American Business

Thank you, Tom, and thank you to the Chamber Foundation for having me here today. This is an important meeting and I welcome the chance to cap your day of economic discussions with my perspective on the American economy, in particular a look at its foundation – the fundamentals that it's built on, and, therefore, foretell our economic future.

But I want to start out by quoting something that columnist Robert Samuelson wrote in the Washington Post yesterday. It was something that struck me as being quite true. He said that all the good economic news – both nationally and internationally – is "bad news for the news business."

I think that's right; it's an interesting, if ironic, point. A good economy doesn't make for very exciting news stories. The press may find this economy of ours to be downright boring. Well, I want to emphasize today that I don't find it boring – I'm betting business owners don't find it boring either – and I'm quite sure that the hundreds of thousands of people who are finding new jobs every month don't find it boring at all. Rather, it is a reason for optimism.

Over the past two to three years, economic indicators have been a steady drumbeat of good news. It's really amazing to look back on the past five years. When President Bush took office just five years ago he was inheriting an economy in decline. The bursting of the stock market bubble pushed the economy into recession and then the terrible shock of September 11th made economic matters even worse.

Thanks to responsible economic leadership from the President and Federal Reserve Board, our economy is now unmistakably in a trend of expansion. GDP growth is averaging over four percent annually. Four and a half million new jobs have been created since May of 2003, 2 million of them in the last year alone. Unemployment is running lower than the 1970s, 1980s and 1990s, U.S. equity markets are rising, and household wealth is at an all-time high.

The U.S. is the picture of economic health and we remain, as the President often notes, the economic envy of the world.

When we dig deeper into this picture – when we look at the underlying fundamentals of the economy, its strength makes even more sense, and we can see that businesses and workers have every reason to be optimistic about the future.

For example, we see that productivity growth remains strong. Output per hour in the non-financial corporate sector is up 4.7 percent versus last year.

Consumer net worth – that's assets minus debts – is a record high, and not just because of housing. Deposits – the money in checking accounts, savings accounts, and money market funds – are at a record high and are larger as a share of disposable income than at any time since 1993.

In the past two years, the economy has generated about 170,000 jobs per month, and that includes the two-month slowdown in job growth in the aftermath of Hurricanes Katrina and Rita.

Core inflation remains low, and that's good news for everyone.

It is also noteworthy that new orders for non-defense capital goods are up 20 percent versus last year. This tells us that the capacity of American businesses to produce in the future is rising. Meanwhile, the capacity utilization rate is 80.2 percent, which is below the level that in the past has been associated with rising inflation. In other words, American businesses are increasing capacity and at the same time have room to more intensively use the capacity they have, suggesting low inflation in the future plus pent-up demand for labor.

Independent private-sector forecasts point to continuing good news. For 2006, they predict a nice increase in real wages. Inflation-adjusted hourly wages are in fact already beginning their rise, growing 1 percent in November and 0.5 percent in October.

We are, right now, likely witnessing the tipping point on wages – when incomes rise for workers and business combined, but workers once again increase their incomes faster than businesses. As employers, you are familiar with the scenario: once businesses have been doing well for a while, they ultimately compete those increases in income away by competing harder for labor. The result is higher wages and higher standards of living for workers.

Both on leading indicators and a deeper background analysis, the American economy proves to be on solid footing. The question that business and government should look at is this: *why* is our economy performing so well and what can we do to continue these positive trends?

Put in the simplest of terms, you – the business community – create the jobs, develop the new products and services and so on. And we – the government – are responsible for creating an environment in which you can succeed.

The Federal Reserve has added to a favorable environment by implementing sound monetary policy. And there can be no doubt that the President's economic policies of lower taxes on income and capital have given both businesses and individuals the room they needed to grow and prosper.

The approach of this administration has been to implement the type of policies that have always, historically, enabled this nation to thrive. Ours is a country that is unique in its freedoms and we owe our prosperity to those freedoms. The simple fact that we operate as a free market is central to our success. The U.S. has tended to encourage small-business ownership, innovation and entrepreneurship, and that's essential for a thriving economy. Policies that let entrepreneurs and workers simply do what they do best have always enabled our economy to be more open, flexible, adaptive and resilient than any other in the world.

The President's tax cuts tapped into this proven, and I think uniquely American, economic theory on promoting growth, and effectively lightened the burden on individuals and businesses, leaving you to spend and invest, grow and create jobs.

The reduced burden especially lowered the cost of capital and encouraged investment – the lifeblood of a free market economy. And as you are well aware, there is a risk right now that taxes on investment and job creation could be raised. That would be a terrible mistake, given the economic success that lower rates precipitated.

With more Americans working than ever before, more Americans owning stock than ever before and with federal tax revenues at an all-time high to boot, there is simply no reason for the Congress to accept a tax increase from the Congress. And I'm confident the President won't accept one, period.

But this fight to keep taxes low on business, families and individuals will take an extra effort from you and our friends on the Hill. They've got to make all of the President's tax cuts permanent; letting them expire would be a tax increase – there is simply no other way to put it. And tax increases would be bad for the economy, bad for every American who still needs a job or seeks a better job.

It quite frankly baffles me that a tax increase would be advocated by some when the success of lower taxes is so evident. Opponents of the original tax cuts used to argue that federal revenues would be at risk, that the President's plan was "reckless" and wouldn't create jobs.

Well, their arguments about job creation were certainly wrong. And the facts since 2003 have shown that the economic growth spurred by the President's tax policies have significantly swelled government coffers as well, rendering the federal revenue argument moot.

According to our own Treasury estimates, the lower tax rate on dividends and capital gains will ultimately increase national output by $35 billion. This is significant because it illustrates the real point of these policies: they increase savings and investment, increase labor productivity through this higher capital formation, and, ultimately, increase jobs, the size of our economy and raise livings standards.

We still have a federal budget deficit – one that is too large and that the President is firmly committed to reducing. But our deficits are not the result of lower receipts – tax revenues are coming in strong. Deficits matter and one of our highest priorities is to achieve the President's goal of reducing our deficit in half to below 2.3 percent of GDP by 2009. Even in the face of increased costs to deal with last summer's hurricanes, I am confident that we will achieve this goal through spending restraint and continued economic growth.

Good news on spending restraint came before the holidays, with final approval in Congress of the FY2006 budget bills. The President worked with Congress to reduce non-security discretionary spending below last year's level, terminate or reduce funding for 89 lower-priority or poor-performing programs, and rein in mandatory spending for the first time in nearly a decade.

The prescription for the near future, for our economy, is straightforward: if we keep on doing what we're doing, policy-wise, we should keep getting what we're getting – in this case, excellent economic growth, millions of new jobs and a deficit that is in decline.

Can we do even better? You bet. Policies that reduce the number of baseless lawsuits would be a great way to further free-up business and entrepreneurs to produce and create jobs. And I know how much the cost of energy impacts your business. The President understands that, and it's why he fought so hard for last year's historic energy bill. There's work ahead on energy issues, and a reduced dependency on foreign sources is at the top of the President's energy agenda.

The President also appreciates the drag that excessive regulation can put on business, and therefore on job creation and innovation. That's why he tasks his cabinet with taking a close look at their agencies, at their regulations, and making sure that the benefits and protections of regulation are achieved without putting an undue hardship on you. We want you to be able to do what you do best, and that's create jobs. So there's a balance to achieve on regulation, and this entire administration is dedicated to achieving that balance.

Similar in some ways to excessive regulation is excessive complexity in our tax code. The code is not where it should be. After nearly three years as Treasury Secretary I have yet to find anyone who is happy with the tax code – unless you are in the tax preparation business, that is. Just to navigate it, millions of Americans have to enlist professional help. I know you've heard – and lived – the statistics – billions of hours of paperwork for tax filers and businesses, $140 billion dollars in lost time and money just trying to comply with our increasingly unwieldy tax code. This is a drag on economic growth in America and an unnecessary burden we all share.

The President's Tax Reform Panel did excellent work under the leadership of the two co-chairmen, former Senators John Breaux and Connie Mack, and we're reviewing their proposals now. We only get the chance to reform the code every twenty years or so, so we've got to make sure it's done right. We're not going to rush the reform process because America deserves a tax code that meets the President's goals for fairness, simplicity, and economic growth.

The rising cost of health care is another critical issue that I know you all deal with every day, and we still need common-sense medical liability reform to help address those costs.

The creation of Health Savings Accounts two years ago was an important step toward reducing costs and increasing the availability of health insurance. Today, over a million Americans – a large portion of whom were previously uninsured –are enjoying access to more affordable health care because of the tax advantages and savings benefits of HSAs, and I encourage all employers and individuals to consider them as an attractive alternative to traditional health insurance.

For the longer term, we have economic issues that loom and the sooner we address them, the better. The President did the right thing by leading on Social Security reform. We appreciate your support for it. It remains the right thing to do.

I also appreciate, and share, the concern of this group when it comes to the skills and preparation of the American workforce. The need for American workers to remain competitive with the workforce of the world is essential, and it's one of the motivating forces behind the President's Community-Based Job Training Initiative, which has provided $125 million in grants to community colleges. This administration believes that institutions that have a track record of success, offer a flexible curriculum and provide training for jobs that actually exist should receive federal monies. Congress needs to continue funding job training programs so that American workers can learn better skills and, ultimately, earn bigger paychecks.

Our workers are already competing with workers all around the globe, and when the playing field is level both our workforce and our businesses will always prove themselves. That's why a level playing field is central to the President's free and fair trade agenda. This underscores the importance of the Doha trade round which has the potential to boost American jobs by reducing and eliminating tariffs and other barriers on farm and industrial goods, ending unfair subsidies and opening the global market to American services. The U.S. will push for a bold, wide-ranging agreement, and the President will continue to use the American influence to bring American workers even greater opportunities. With 95 percent of America's potential customers living abroad, opening up new markets is extremely important.

I would never advise anyone to bet against the American worker, American business or the American economy overall. When businesses, families and individuals are allowed to pursue their goals – with opportunities to invest and enjoy the rewards of innovation, risk-taking and entrepreneurship – our economy is incredibly resilient and powerful.

Again, I appreciate the chance to talk with you today about the prospects for our economy. I look forward to taking your questions.

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