Remarks Prepared for Delivery

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Introduction

Thank you, Susan, for that kind introduction. I'm a big Susan Story fan – one of the most impressive individuals I've had the pleasure to know and one of Florida's greatest assets. Anyone who is both a Girl Scout and an honorary commander of fighter wing is my kind of well-rounded leader.

I'm delighted to be here because Florida it is a pioneer state when it comes to innovation. You're clearly focused on entrepreneurship and the important "what's next" question for the economy and your citizens. The fact that Florida has such a dynamic and high-profile state-wide Chamber of Commerce – in addition to the important local chapters – is further testimony to Florida's commitment to engaged private sector leadership in public policy.

In fact, I applaud the Florida Chamber of Commerce for holding its annual meeting concurrently with IT Florida, an organization that certainly understands what it means to be focused on "what's next." This tells me that the business community in the Sunshine State understands how technology, innovation, and entrepreneurship keep Florida – and our country – competitive in the flat, global marketplace of the 21st century. Innovation and competitiveness simply does not *just happen* – you have to work at it, and Florida is a state that gets it.

A Crisis Averted

Given the events of the last three weeks, Susan has asked me to talk about what's on everyone's mind – the state of the economy and the financial recovery legislation that the President signed into law this past weekend. As a member of the President's economic team this issue has been primary on my agenda for the past several days and I'm gratified that the Congress came together to advance this important legislation, not just for Wall Street, but also for Main Street and all of us.

The run up to this "perfect storm" is a complicated matter. In a nutshell, the loose credit markets of recent years coupled with rapidly rising home values led to the overbuilding of housing stock, unscrupulous lenders who convinced good folks to engage in risky financial behavior, and individuals who simply purchased more house than they could reasonable afford in the long-term. This led to crisis of sorts in our financial markets, and much like a hurricane, had the potential to cause great damage if the President and Congress didn't take meaningful and quick action.

The effects of this storm were already being felt even before last month. Small businesses -- even those with good credit and good ideas -- were finding it more difficult to get the credit they need to start, maintain, or expand their businesses.

The credit situation was literally changing in the blink of an eye, which is why the President and the Secretary of the Treasury pushed for quick action.

Here's a sobering statistic, in a recent survey, nearly 70% of small businesses reported that the credit crunch has impacted their businesses in some way. Banks – large and small – are tightening -- perhaps over-tightening -- their credit standards or even withholding credit completely.

These findings are backed up by my personal experience talking to small business owners in recent travels, and the fact that for August, the Small Business Administration saw a significant decline -- 29% -- in the number of loans we made through our private sector financial partners, and for September, while the final numbers are not in yet, we are expecting a 50% decline in loan volume.

But it's not just a small business issue; the availability of general credit was drying up; the ability of average Americans to borrow for college, a new home or car was also at stake. If families can't get mortgages, it would prolong the housing slump and depress home values even more. If folks can't sell their home to move to another locale, our famed American mobility would be curtailed. Prolonged uncertainty about the health of our financial institutions would further undermine business and consumer confidence -- possibly resulting in a recession of unknown duration.

But I am pleased to report today that the President's financial rescue plan – now signed into law as the Emergency Economic Stabilization Act of 2008 – will go a long way in helping the markets return to normalcy. This is important because capital is key to our ability to remain innovative and competitive in the 21st century global economy -- it's the grease in our economic engine.

A good idea without capital is simply that -- just an idea. Without this legislation, our innovators and entrepreneurs -- including many here today -- might have been cut off from the capital they need to do business. The entrepreneurial spirit that is represented in this room today would go nowhere because good ideas mean nothing without good financing. Fully functioning credit markets are critical to all of us -- as business owners, as employees, as home owners, and as consumers.

But with this legislation in place, we now have the opportunity to build once again on positive elements of our economy such as strong GDP growth of about 3% in the 2nd quarter, the modest jump in consumer confidence last month, and record U.S. exports -- up 19% from last year.

The Final Legislation

The Emergency Economic Stabilization Act that the President signed this weekend will allow the U.S. Treasury over a two-year period to incrementally buy up to $700 billion of distressed real estate securities that are currently clogging the pipes of our financial system.

Keep in mind that we could not have expected or waited for the private sector to buy these assets because had there been a private sector market for these assets – they would have already swooped in to buy them at fire sale prices. Only the Federal Government has the resources and the patience to pull these troubled assets off the market and return the financial system to a sense of normalcy.

Now I want to be clear about what this $700 billion will be used for, because this is a whole lot of money, even by Washington standards.

First of all, the legislation does not give the Treasury blanket authority to write a $700 billion check and send it into the ether. In fact, at the end of the day, this plan will likely make money for the taxpayer. Folks and organizations ranging from CNBC's Jim Cramer to Warren Buffett, to Jack Welch to the AARP to the

U.S. Chamber of Commerce all called for this action and said it was the right thing to do for our country and our economy.

These mortgage-backed securities that the Treasury will buy represent real people, paying real mortgages, living in real homes that have a real value. While in some cases, the home they purchased for $500,000 two years ago may be worth less today, the value of that home will raise again. Also, it's worth remembering that about 95% of all mortgage holders are current on their mortgages.

What this plan allows us to do is to buy these mortgage-back securities at a steep discount – in some cases 20 to 40 cents on the dollar – hold them until their value increases – and then sell them on the open market with the hopes of making a profit for the American taxpayer. Both the Office of Management and Budget and the Congressional Budget Office estimate the ultimate cost will be far less than $700 billion.

As the President explained it, we are essentially borrowing from ourselves -- and paying ourselves back in the future. This *loan to ourselves* will have the effect of stabilizing our markets and economy -- protecting us from much more dire consequences.

History suggests that the plan will work, as did the Federal plan to dispose of failed thrift assets during the savings-and-loan crisis of 1980s. Other Federal interventions of this nature were also effective, such as the loan we gave Chrysler in 1980 -- which was paid back ahead of schedule <u>with interest</u> -- and the assistance we provided to the government of Mexico in 1995, which I'm told netted the Treasury about $500 million.

Some have termed the President's plan a "bailout" of Bentley-driving Wall Street fat cats, but the real beneficiaries of this plan will be everyday folks who live far from Manhattan. It's not about the Gordon Geckos of Wall Street— but the Gordon Johnsons of Main Street.

As the legislation reduces turmoil in the housing market, it will help the many small business owners who use a personal residence as collateral for business investments and don't want to be in a position where the price of their home is less than their mortgage.

Imagine for a moment what would have transpired if we had done nothing. Your neighbor may not have been able to get a loan to buy that new hybrid SUV she's been eying at the local dealership. The dealer would suffer because he is not moving inventory. Nor would the dealer be able open another dealership in the next county and hire new sales and service workers looking for jobs. Worse yet, they might have to reduce staff or shut down completely. Auto manufacturers would have been forced to cut production and layoff more workers.

I understand this was a tough vote for many members of Congress. It's been a tough issue for us in the Bush Administration – as we believe in free enterprise, in the free market. Our natural inclination is to oppose government intervention. As the President said, *"I believe companies that make bad decisions should be allowed to go out of business."* Nonetheless, I believe government has an obligation to act when it – and *it alone* – has the power to act. We were presented with a situation that is far from normal and far from normal action was required.

We are fortunate that the Congress was able set short-term political agendas aside last week, demonstrate leadership, and make a tough call. *They did the right thing.* It is times like this that our nation comes together and we look to our elected leaders for, well, *leadership*, and I am pleased with their final result – although it wasn't always a pretty process.

Conclusion

I am very hopeful. I am hopeful because I have seen this great nation tackle and overcome all sorts of challenges in just the last few years. From the Y-2-K scare, to the bursting of the dot-com bubble, to the 9-11 terror attacks, to corporate scandals, and large natural disasters, we've proven that we can take a hit and keep on growing -- it's one of our unique strengths as Americans.

This crisis has given voice to some of the shrill – but perhaps well-meaning – voices who are advancing the "Chicken Little Theory." My perspective is that while no one can dispute the sobering nature of the news of recent days, we should not overreact – one way or another.

The economic obit of America has been written before.

- In the oil shock of the early 1970s – many believed that our best days were behind us.
- In the late 1970s – when we experienced stagflation and malaise many believed that we had to lower our standard of living.
- In the early 1980s – the recession of '81 – '82 caused some to lost confidence in <u>both</u> the big government ways of the 1970s and the new direction that Ronald Reagan and George H. W. Bush wanted to take the nation.

- In 1986 – we saw a true stock market crash, a 23% drop in the value of the stock market in just one day.
- In the early 1990s – the raise of Japan's economy caused some to believe that America was incapable of competing against the world and we were headed to be a second-rate economic power.
- In 2001 – the terrorist attack on the Pentagon, the World Trade Center, and in Shanksville, Pa., shook our confidence to the core.

The predictions of doom and gloom for each of these events were no more valid then, than the similar predictions I hear today. Is the challenge we face today different? You bet – just as different as each of these previous challenges were from each other. Yet, for each of these challenges our country not just continued, but experience significant economic growth afterwards.

As we examine the causes of what brought us to this credit crisis, we must take a serious look at things like:

- The appropriate role of regulation in our financial markets.
- The level of complexity of some of the financial instruments that have developed over the years.
- And determine if we have created too many ways to make money – or lose money – by simply shuffling paper and not adding real value.

We have tough questions to ask and there will be plenty of folks asking them. But as we do this, let’s not forget some basic fundamentals relevant to this discussion:

1. Homeownership is a good thing. Long-term, homeownership is the largest wealth creator for most Americans. Homeownership provides stability to our nation, drives economic growth, and builds more livable and vibrant communities. Homeownership is a good thing.

2. Small business is the backbone of our economy. Two-thirds of all private sector jobs are created by American small businesses. Increased burdens and regulations on small businesses will stifle small businesses and thus stifle job creation.

3. Most small businesses are sole-proprietorships – S-corps – that are taxed at the individual rate. So beware of calls for “taxing the rich” because those taxes hit small businesses hard. We must separate the Bentley-driving Wall Street type from the Buick-driving successful small business owner with five employees trying to make payroll and dreams of expansion.

4. Business investment – not government spending – drives our economy and creates job opportunities. Unless the private sector is ready, willing, and able to invest in a community, economic growth simply will not occur – regardless how much government spends.

5. Finally, innovation is our nation's only potential sustainable competitive advantage in our flat, 21st Century global marketplace. So, let's remember where innovation flourishes. Innovation occurs in open and competitive markets. That's why you see more innovation in toothpaste then you see at your local DMV. We promote job growth and economic prosperity by creating the conditions for small businesses to flourish and be innovative.

These are interesting times, no doubt. But, as I said, I am hopeful. Just as we addressed and succeeded through previous challenges – we will this time too.

History is a comforting guide. We are not a perfect nation, but we are closer to perfect than any other I know. The American dream lives and it remains strong. Yes, we faced a crisis. But we took action. We are moving forward. Tomorrow is a brighter day.

We have work to do in Washington. That work is geared towards allowing all you, business leaders and employers, to your job answering the “what’s next” question. Thank you for your leadership in our economy, thank you for your leadership here in Florida, and thank you for your kind attention today.