



Remarks Prepared for Delivery

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Introduction

Thank you, Jerry, for that kind introduction. It's great to be back in Chicago, the site of the National Summit on American Competitiveness, which I had the honor of hosting along with Commerce Secretary Carlos Gutierrez and your mayor, Richard Daley.

Chicago is the perfect city to host a discussion on competitiveness and innovation. Chicago is perhaps the quintessential American city with a long history of bold action. Chicago is:

- A city that reversed the flow of a mighty river;
- A city that started rebuilding before the embers of the Great Fire had even stopped glowing;
- A city that stands a chance of hosting a cross-town World Series -- how about those Cubs and White Sox! And,
- A city that today is focused on innovation and the important "what's next" question for its economy and its citizens.

I applaud the leadership of Mayor Daley -- yes, you just heard a Bush Republican compliment a Democratic Mayor -- and the Chicagoland Chamber of Commerce for focusing on innovation and Chicago's competitiveness in our 21st Century, flat, global marketplace. Innovation and competitiveness simply does not *just happen* -- you have to work at it and Chicago is a town that gets it.

I'm also pleased to be here today with WIRED magazine. WIRED is an institution that certainly understands what it means to be focused on "*what's next.*"

The Crisis at Hand

Jerry asked me to talk about what's near and dear to all our hearts: innovation and how it happens. Of course, as we all know, we are in the middle of a very serious financial crisis that impacts not just Wall Street, but Main Street and all of us. So given the news of the day and my role as a member of the President's economic team, I hope you'll allow me the liberty to refocus a bit.

There is no doubt that the capacity to innovate is America's only possible sustainable competitive advantage in the 21st century. But a good idea without capital is simply that -- just an idea -- and until Congress works out the details of the President's financial recovery plan and passes final legislation -- our innovators and entrepreneurs, including many here today, may not have the capital they need to do business. Fully functioning credit markets are critical to all of us -- as business owners, as employees, as home owners, and as consumers. Some are trying to position the Financial Recovery Plan as a bailout of Bentley-driving Wall Street fat cats, but the real beneficiaries of this plan are everyday folks who live far from Manhattan.

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. Today, we have a perfect storm of sorts in our financial markets, and much like

a hurricane, has the potential to cause great damage if we don't take meaningful and quick action.

The effects of this perfect storm are already being felt. Small businesses -- even those with good credit and good ideas -- are finding it more difficult to get the credit they need to start, maintain, or expand their businesses. The credit situation has literally changed in the blink of an eye, which is why the President and many Congressional leaders are focused on quick action.

In a recent survey, nearly 70% of small businesses report 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 my recent travels across the country and the fact that last month 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 the early predictions are a 50% decline in loan volume.

This isn't just a small business issue; the availability of general credit is also drying up; the ability of average Americans to borrow for college, a new home or car is also at stake. If families can't get mortgages, it will 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 will 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.

Wednesday night, the President said that “this is an extraordinary period for America’s economy” and that “we’re in the midst of a serious financial crisis.” This is a serious situation. We as a nation have the opportunity, if our government acts promptly, to build on positive elements our economy such as strong GDP growth of about 3% in the 2nd quarter, record U.S. exports -- up 19% over last year. But if we don’t act now to stabilize our financial markets, we may soon have no positive news on the economic horizon.

The President’s Plan

The President’s plan would allow the U.S. Treasury to buy up to \$700 billion of distressed real estate securities that are currently holding the financial system hostage. We can’t expect the private sector to buy these assets because their declining values are ambiguous. Only the Federal Government has the resources and the patience to pull these troubled securities 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, what the President proposes in this Financial Rescue Plan is not to write a \$700 billion check and send it into the ether. In fact, at the end of the day, this plan might actually make money for the taxpayer. *Jim Cramer of CNBC said, “I believe this plan will make us money. [Secretary Paulson] knows how to make money...that’s what’s he did all his life. He’ll make money for us. I’m banking on him.”*

These securities that nobody wants today are backed by actual people paying mortgages. The Treasury should be able to purchase them for less than their value -- in many cases 20 to 30 cents on the dollar -- and then resell them at a later date -- at a profit -- after the housing market revives and confidence is restored to our financial system. In fact, what the President proposes with this \$700 billion proposal is to borrow from ourselves -- and pay 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 with interest and the assistance we provided to the government of Mexico in 1995, which I'm told netted the Treasury about \$500 million.

The sooner Congress passes the legislation, the sooner the Treasury can buy these distressed assets, and the sooner the financial sector will be able to rebuild and recover.

This effort has been termed a bailout of Wall Street. That's unfortunate because that's not why we are doing it. It's not about the Gordon Geckos of Wall Street — it's about the Gordon Johnsons of Main Street.

To the extent that the plan 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.

Just imagine for a moment what will transpire if we do nothing. Your neighbor may not be able to get a loan to buy that new hybrid SUV he's been eyeing at Torco Chrysler Dodge. Torco will suffer because it is not moving inventory. They won't be able to act on plans to open another dealership in St. Charles and hire new sales and service workers looking for jobs. Worse yet, they may have to reduce staff or shut down completely. Auto manufacturers will be forced to cut production and layoff more workers.

If innovators and entrepreneurs are the engine of our economy, financing is the grease that allows the engine to run. The creative genius that is represented in this room today will go no where because good ideas mean nothing without good financing.

Closing

Perhaps this is exactly why an authority no less than Warren Buffett wants to Congress to work out the details and pass this legislation soon. Buffett said, *"This isn't the time to vent your spleen. It's time to do something, It would be nice to have the luxury of thinking about this for three months, but if you wait three months -- if you wait three weeks -- you're going to be facing a situation that's far more difficult."*

Buffett also had this to say, *"The Administration's plan is absolutely necessary...and I might add, if they do it right, and I think they will do it reasonably right, I think they'll make a lot of money."*

I understand this is a tough vote for many Members of Congress. It's a tough issue for us in the Administration -- we come from a free enterprise free market mindset. Our natural reaction is to oppose government intervention. But I believe government has the obligation to act when it – and *it alone* – has the power to act. As the President said on Wednesday, “*I believe companies that make bad decisions should be allowed to go out of business.*” But today, we are presented with a situation that is far from normal and far from normal action is required.

Now is the time for leadership. Now is the time to set short-term political agendas aside and make a tough call -- *do the right thing*. It is times like this that our nation comes together and we look to our leaders for, well, leadership.

Nobody wants to be in the position we are in today, and there will be plenty of time to examine what when wrong -- and how to address these issues for the long-term. Today, however, the task is clear and the Congress must act.

The Financial Rescue Plan is directed at the heart of our economy and the heart of Main Street. It will have a direct impact on the ability of entrepreneurs and small businesses of Chicago and across America to meet the challenges of innovation in the 21st century.

I am hopeful. I am hopeful because I have seen this great nation tackle and overcome still 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 American strengths.

I understand the concerns people have about the state of our economy and this Financial Rescue Package. Nobody likes to make a \$700 billion decision on the fly, but the cost of inaction is much, much higher.

Thank you for your important efforts to push the innovative envelope and keep America the most competitive nation in the world. Our economy and standard of living is directly tied to the efforts of people just like you across America.

I appreciate the opportunity to be here today and I thank you for your kind attention.