

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

August 18, 2006

PRESS BRIEFING BY
SECRETARY HENRY PAULSON, DEPARTMENT OF TREASURY,
DIRECTOR ROB PORTMAN, OFFICE OF MANAGEMENT AND BUDGET,
AND CHAIRMAN EDWARD LAZEAR, COUNCIL OF ECONOMIC ADVISERS,
ON THE PRESIDENT'S MEETING WITH ECONOMIC ADVISORS

Via Teleconference

1:03 P.M. EDT

SECRETARY PAULSON: Good afternoon. I'm Hank Paulson, and the newest member of the economic team. This was my first session -- economic session at Camp David. And I found it particularly interesting and productive.

And what we did was, by getting out of Washington, D.C. and getting into a relaxing environment, I think we were able to have quite an interesting and productive session where we dug deeper into some of the longer-term issues, some of the complex issues we're dealing with. Now as you know, all of this was against the backdrop of an economy that's been performing well for some time now. We had a good discussion -- Ed Lazear began by talking about the economy, but most of the session was spent talking about some of the longer-term challenges.

The biggest section was on entitlement reform, so we talked a lot about that, and different approaches, the nature of the problem. We had a brainstorming session. We talked about the budget, we talked about tax reform, we talked about wage growth -- good discussion about that.

And what struck me -- my biggest takeaway here was how engaged the President was on all of these issues, and how well the team worked together and how well the discussion went.

So with that, as a backdrop, why don't I throw it open to questions?

Q Secretary Paulson, I wonder, considering the strength of the economy that you have referred to, and often refer to, why do you think that polls show that the public doesn't give the President more credit for managing a good economy?

SECRETARY PAULSON: That's, I think, the \$64,000 question. And as I've thought about it, I think a big part of it relates to the fact that many Americans aren't feeling the benefit because they are clearly better off as a result of a strong economic growth and job creation. They're much better off than they would be if the economy were growing slower or weren't growing. But many of the Americans aren't feeling it in terms of their own economic situation. Part of this is a result of energy costs, health care, and so that's -- as I said, that's part of it.

I would be optimistic that if we can keep the job creation, keep making new jobs and productivity levels high, that you're going to see wage growth follow this. And we've seen some encouraging signs if you look over the last couple quarters. And that's part of it.

And then there's the other question which really -- or the other part of this, which I think relates to a trend that's been going on now for 20 years at least, which really has more to do with the integration of the U.S. into the global economy and technology, and that's that, clearly, we're seeing a trend that the greatest rewards are going to those who have the skills to really adapt to the opportunities in the economy. And so that's a trend. The answer to that is clearly education and training. But I think one thing we all feel pretty strongly about, that whatever the issues are we're dealing, we're dealing with -- it's easier to deal with them with a strong growing economy that's creating new jobs.

CHAIRMAN LAZEAR: May I just add a point just to Secretary Paulson -- the other thing I would say is that if we look at the behavior rather than the responses to polls, the behavior is consistent with a strong economy. We see consumption being high. In fact, the saving rate is negative right now. We see people entering the labor market at very high levels. Labor force participation was up last month primarily because jobs are available and because wages are growing; business investment is strong; investment in non-commercial real estate is strong.

So all of the indicators are that the behavior does not reflect the kind of language that we're seeing in the polls.

DIRECTOR PORTMAN: I would also add, not as the budget director, but as someone who has looked at some of these polls, that, in fact, people do believe their personal situation is better. In fact, if you look at the recent ABC/Washington Post poll last week -- I think it was reported this week, it shows that about 60 percent of people think that their situation is good or very good.

And yet, with regard to the economy, you are correct. There is less confidence in the economy. That's a disconnect, and that disconnect can be explained partly by what I think Secretary Paulson was explaining. But partly it is we probably haven't done as good a job communicating the strength of our economy because people are doing well. They feel as though what they -- over 60 percent of people feel that the economy is doing well for them individually, but they are concerned about the macro-economy.

So part of what we learned today in talking to Chairman of the Council of Economic Advisers, and Secretary of Treasury, and others, was that, in fact, we have a strong and growing economy. We still have the strongest economy, by the way, among the G7 countries, our primary trading partners. And we had 4 percent growth in the first half. And we look to continue growth, continue relatively high productivity, which, as Secretary Paulson said, will lead to higher wage growth.

And we're also seeing, of course, a very positive impact, therefore, on the budget. Pro-growth economic policies have led to increases in revenues, which, in fact, have taken the budget projections down, not just for us but the Congressional Budget Office reported yesterday that they, too, concur with us that the budget will be lower this year than projected. And in fact they believe it will be even lower than we're projecting now, partly driven, again, by the increased revenues from a better economy.

Q Oh, hi. Thanks for taking my question. I guess I'd like to ask if you discussed whether the global war on terror and the war in Iraq in particular are affecting people's views of the domestic economy.

SECRETARY PAULSON: We didn't talk about that specifically, but -- and it's difficult to know what's affecting people's views, but our conversation was focused very much on the

economy, what's going on in the economy, how can we keep it growing, what are the concerns, if any, we might have looking to the future.

Q Do you have opinions -- do any of you have any opinion about that, whether there is a sort of overhang on that?

CHAIRMAN LAZEAR: The one thing that we do know is that the more narrowly focused our polls on the economy, the better are the responses. So if you look at polls, for example, after al Zargawi was caught, the general view of the economy at that time jumped 13 percentage points. And of course that had almost no effect on the economy to speak of, and yet people's opinion of it went way up. So if we look at numbers that are related, say to the economy specifically, look at the Conference Board's numbers, you tend to see higher ratings there.

So the polls that focus on the economy, per se, and only the economy, I think do give us better numbers, and that's probably because there is some relation between the way people see the economy and the general situation in the global war on terror.

Q Okay, thanks.

Q You referenced the CBO report yesterday. One of the findings of that report was that if the President's tax cuts are extended through 2016, the cost of that plus fixing the AMT would be \$3.2 trillion. And that would be on top of a deficit that they're projecting out the next 10 years of \$1.7 trillion. Does that estimate square with the estimates that the administration makes? And what kind of problem does that present for you in trying to get the President's tax cuts made permanent?

SECRETARY PAULSON: As we look at the tax cuts, we see a very positive impact of a strong economy that's growing. And when we look at the deficit, we -- all of us wish it were less, but as we look at it as a percentage of GDP, it's at a very comfortable level as a percentage of GDP. And it's really quite noteworthy that the deficit is where it is today, given the fact that we've had hurricanes, given the fact that we've got the need to finance a war.

So our focus was largely on where the real problem lies, and that's with the entitlement and entitlement spending, and what that's going to do to the economy and what it's going to do

to the deficit. And that really would be a long-term, structural deficit problem unless we can come up with a fix for it. And we think it's quite possible to come up with a fix that's quite doable; the question is whether we can get the support from Congress to get something done.

DIRECTOR PORTMAN: Just briefly on the CBO and OMB numbers, and their differences, we've now had time to analyze the CBO projections. And it's remarkable how similar we are. I take from your question some of the differences in our modeling. One is, of course, we show the tax relief going out; we show it being permanent. That's cooked into our numbers. So anything you see from OMB and the administration does assume that the tax relief from 2001 and 2003 continues.

CBO, on the other hand, on the emergency spending, assumes -- as they must under their rules -- that whatever emergency spending we did, say, this year with regard to Katrina would continue out indefinitely, same with the global war on terror and any of the Iraq costs, so the amounts we called emergency spending continues out.

But with taking those two differences into account, it is really remarkable how similar we are -- both on our revenue projections and on our outlays -- on our spending projections. In fact, in 2012, as you know, both CBO and OMB show significant reductions in the deficit to the point that it's down to roughly \$50 billion each.

I will tell you that in terms of the tax question you ask, one interesting thing to look at is the impact of revenue on our economy, and in particular what percentage of revenue we are raising as a part of our economy. Historically, the average is about 18.2 percent. This year, based on CBO's projections and our projections, we will be slightly above that with tax relief in place.

And again, going forward as Secretary Paulson has said, the big issue is actually on the spending side. And OMB and CBO, again, have very similar projections there. But in terms of the tax relief, if you were not to continue the tax relief, you do have rising revenue as a percentage of the economy. The 18.2 percent is exceeded, and somewhat substantially, over some of those out years, so it's just something to look at. The numbers are very similar. They tell the same story, and that story is that a growing economy has resulted in increased tax revenues,

with some reasonable constraint in spending, that has resulted in better deficit projections, going again to the point that in the next five years we see a trend of a declining deficit, even from the levels today, which are consistent with the historical deficit numbers, in terms of a percentage of GDP.

Q Secretary Paulson, I was wondering if you could elaborate a little more on the brainstorming session that you referred to, and also tell us a little bit about -- there are concerns that tax reform is being moved back on the agenda again to make room for Social Security reform. I'm kind of wondering what the plan is there, and if you're going to push Social Security reform, what you're going to do differently from Secretary Snow's efforts last year?

SECRETARY PAULSON: Maybe my word brainstorming was a bit of an exaggeration, but there certainly was a free-flowing discussion where we exchanged ideas on approaches to entitlement reform, because when you talk about entitlement reform here, we're spending a lot of time talking about not just Social Security reform, but Medicare, Medicaid, in order of magnitude, differing in terms of the complexity. And really, a lot of the discussion really concerns the issue you've just raised as what's the role of tax reform in all of this.

So we spent a fair amount of time, and it's very -- in my view, tax reform is not taking a backseat. Tax reform is integrally related. It's just an integral part. You can't talk about the whole entitlement question without thinking about the budget, and you can't think about either of them without talking about taxes. And so tax policy, entitlement reform and the budget were part of the discussion.

Q Thank you.

CHAIRMAN LAZEAR: I would just add one thing to that, and that is that the President is very much aware that the American people are calling for simplification of the tax code and for a tax code that is both fair and pro-growth. And that was definitely on the table and a subject of discussion. So that was something that he's been thinking about for a number of years now, and it's alive and well, and, I would say, an active part of the discussion.

END

1:19 P.M. EDT