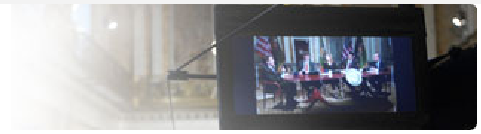
U.S. DEPARTMENT OF THE TREASURY

## Press Center



# Secretary Geithner Remarks as Prepared for Delivery at Center For American Progress

8/4/2010

TG-814

Thank you, John and Doug, for hosting this event and for your efforts through the Center for American Progress and the American Action Forum to better inform our national discussion.

We face important economic choices in the next several months, and these choices need to be made carefully, guided by what will be best for the middle class and for economic growth.

Over the past two decades, Washington provided the country with a useful lesson in the consequences of two very different approaches to economic and fiscal policy.

In the 1990's, sound fiscal policies led to large surpluses and important investments in the middle class, which helped contribute to a period of strong growth and job creation, led by the private sector, with broad gains in income for all Americans.

After that, Washington changed course, abandoned the basic disciplines of budgeting, and borrowed to finance expensive tax cuts skewed towards the most affluent, and a significant expansion of Medicare. The result was a huge increase in our debt burden, relatively slow job growth, and stagnation in incomes for the middle class.

We are living today with the damage caused by those choices. And as we start a new decade, we have compelling evidence of what works for middle class Americans and for Main Street businesses - and what doesn't.

The debate we now confront is whether to extend tax cuts for the middle class, which are due to expire at the end of the year; and whether to allow tax cuts for the top 2 percent of Americans, those with annual household incomes of at least $250,000, to expire, as scheduled.

This decision is about more than the impact on our future deficits and debt, although that is critically important. It's a decision that will impact economic growth and the faith of Americans in the fairness of our tax policies.

Now, the President's commitment is to restore policies that will help the middle class and lay the foundation for better long-term growth.

The President believes, and I believe, that extending middle class tax cuts is an essential part of that commitment, and essential to continued economic recovery.

These tax cuts save more than $2,000 per year for a typical middle class family.

But given the size of the deficits and debt that we inherited, we must provide that tax relief in a fiscally responsible way.

We believe the best way to do that is by allowing the tax rate for the top 2 percent to go back to levels seen at the end of the 1990s, a time of remarkable growth and economic strength.

There are some who suggest that we should hold the tax cuts for the middle class hostage, until Congress extends the tax cuts for the top 2 percent – and permanently repeals the estate tax too.

That would be a mistake.

If the middle class tax cuts are not extended, Americans will face a sharp increase in taxes and a sharp fall in disposable income.

This would be irresponsible and it would be unfair, especially with America still suffering through the effects of what we learned last week was the worst recession in post-war history.

That would only slow our recovery.

Others have suggested we delay, by extending all Bush tax cuts temporarily, for a year or two.

But the world is likely to view any temporary extension of the income tax cuts for the top two percent as a prelude to a long term or permanent extension. That would hurt economic recovery by undermining confidence that we are prepared to make a commitment today to bring down our future deficits.

Fiscal discipline requires hard choices and we must be prepared to make them.

The President has proposed to terminate or reduce government programs we do not need and cannot afford. He has proposed to freeze non-security, discretionary spending, which will by 2014 bring such spending to its lowest share of the economy since the 1960s.

This will require difficult choices and even painful cuts in government programs – an effort we have undertaken in our past two budgets and an effort that Secretary Gates, in particular, has been leading at the Department of Defense.

In the context of those efforts, asking the top earners in our society to forgo an extension of recent tax cuts must be part of the compact that restores fiscal responsibility in Washington.

Now, some on the other side of the aisle insist on extending the tax cuts for the top 2 percent of Americans as a condition for extending the middle class tax cuts.

But permanently extending the tax cuts for the top 2 percent would require us to borrow over $700 billion dollars more over the next decade, adding significantly to an already unsustainable level of debt.

That would be a mistake. Who would benefit from that mistake?

Only the top 2 percent of Americans, who earn on average $800,000 per year.

Some, who have argued against stimulus, now say that extending the tax cut for the top 2 percent is just the form of stimulus that the economy needs. But, as analysts from the Congressional Budget Office to Goldman Sachs recently concluded, extending tax cuts for the top 2 percent would be among the least effective forms of stimulus.

That is because the top 2 percent are the least likely to spend those tax cuts, certainly not in comparison to the 98 percent of Americans who make less than $250,000 per year. While they would surely welcome an extended tax cuts, it's not likely to change their spending habits.

Extending the tax cuts for the top 2 percent even for one year would require the United States to borrow an additional $30 billion dollars. The top 2 percent would save most of that increase in after-tax income.

If we had an additional $30 billion to spend to reinforce the recovery, most economists would agree with the CBO that it would be better to direct that money to tax cuts for the middle class and to promote business investment, and even more effective, in terms of bang for the buck, to use those resources t o provide additional support to states so that they can keep more teachers in the classrooms and police on the beat.

Now, over the past few weeks some myths – old ones and new ones – have surfaced.

There are some politicians who argue that tax cuts pay for themselves. This is a long discredited idea. There is absolutely no evidence to support it.

And conservative economists and policy-makers – even those who once hoped that this fiction was fact – are embarrassed by the argument. They run away from it.

A second myth out there is that by allowing the tax cuts for the top 2 percent to expire, we are going to hurt small businesses. This is a political argument masquerading as substance.

Letting the top-end tax cuts expire will only affect less than 3 percent of small business owners.

Ninety-seven percent of small businesses in this country would not pay a penny more due to letting these upper-income tax rates expire.

Now some have argued that even if only a few percent of small business owners make over $250,000, these few make up a vast amount of supposedly small business income.

This argument apparently counts anyone who receives any type of partnership or business income as if they were a small business.

By this standard, every partner in a major law firm and every principal in a major financial institution would count as a separate small business. A CEO who has board fees or speech fees would also count as a small business owner under this overly broad definition.

If anyone actually wants to help small businesses get needed tax relief as opposed to using them as a cover for supporting tax cuts for the most well-off, they should be supporting Senate passage of the Small Business Jobs Act this week, before they leave town.

This bill – along with our important credit and lending initiatives – calls for zero capital gains taxes for long-term investments in certain small businesses and calls for significant expansion of the ability of small and medium-sized businesses to write off new investments.

Now, the policies put in place by the previous Administration, prior to this great recession, have left us with a terrible legacy of challenges.

The legacy of the crisis is millions of unemployed Americans, idled factories, a national debt swollen by eight years of deficit spending and growing income inequality.

We live in one of the richest economies in the world.

But one in eight Americans is on food stamps today.

And America is a less equal country today than it was ten years ago, in part because of the tax cuts for the top 2 percent put in place in 2001 and 2003.

The most affluent 400 earners in 2007 – who earned an average of more than $340 million dollars each that year – paid only 17 percent of their income in tax, a lower rate than many middle class families.

We are in the midst of a very important debate about the best way forward for our economy.

We may disagree about the role of government in promoting better health care or retirement security or public education for our citizens, and even where we share those objectives, we may disagree on how best to achieve them.

But there is no credible argument to be made that the purpose of government is to borrow from future generations of Americans to finance an extension of tax cuts for the top 2 percent.

The President believes we should keep taxes as low as possible consistent with funding the essential public functions of government; that we have to pay for the programs we decide as citizens the government should provide; and that we have to do it in a way that both promotes economic growth and is fair to all Americans.

We cannot pretend that deficits don't matter, as some on the other side have notably suggested.  And it is encouraging that more Republicans today are expressing concern about future deficits.

Borrowing to finance tax cuts for the top 2 percent would be a $700 billion fiscal mistake.

It's not the prescription the economy needs right now, and the country can't afford it.

With that, I look forward to your questions.

###