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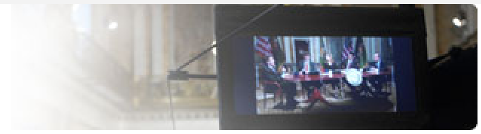

Remarks by Treasury Secretary Tim Geithner at the Detroit Economic Club

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As Prepared for Delivery

It's great to be in Detroit. My visit here has been a powerful reminder of how the President made the right choice to help stabilize the auto industry. Today, the American automakers are growing stronger, creating new jobs, and manufacturing the fuel-efficient cars and trucks that will carry us toward an energy independent future.

For the first time since 2004, all three American automakers have an operating profit. And since GM and Chrysler emerged from bankruptcy in June 2009, the industry has added nearly 90,000 jobs—the strongest period of job growth in more than 10 years.

Now, our strategy continues to be to exit these investments, and just today Chrysler announced that it intends to raise the money it needs to repay the government. Two years ago, no one would have expected us to be in this position today, and it shows the success of the strategy the President implemented and the skill and dedication of Chrysler's employees. We are looking forward to the full repayment of our loan to the company.

Before I take your questions, I'm going to talk about the three main challenges we have coming out of the global economic crisis. These challenges are about economic growth, financial repair and reform, and fiscal sustainability.

But first, let's look at where we were two years ago, at the beginning of this Administration. In early 2009, after a conservative, free market President was forced to nationalize Fannie Mae and Freddie Mac, to ask Congress for emergency authority to stem the financial crisis, and had invested $200 billion in banks that represented 85 percent of our entire banking system, the economy was losing three quarters of a million jobs a month and was shrinking at an annual rate of 5 percent. Auto sales had fallen by 40 percent. Americans had lost $17 trillion in wealth because of falling house prices and the value of their pension savings. Businesses were failing across the country. Global trade had slowed sharply.

So when the President took office, he had a choice. He could stand aside and hope these fires would burn themselves out. He could debate the options for months and wait for political consensus to emerge. Or he could act.

He chose to act. He chose to take the hard, politically perilous steps, to stem the crisis, clean up the mess he inherited, and to get the economy growing again.

That was the right choice, and because he had the political courage to act, with the support of the Federal Reserve, and with authority provided as a result of very tough votes by members of Congress, we are in a much stronger position today as a country.

Now, the force of this storm was severe. The problems that caused the crisis took years to build up, and it will take years to heal the damage. Recoveries that follow financial crises are slow and hard, because after a boom fueled by borrowing, it takes time for people to reduce their debt burden to a more sustainable level, to bring down excess risk in the financial sector, and to work through the excess investment in housing and real estate.

This is still a very tough economy for millions of Americans—including so many families here in Michigan—because of the aftershocks of this crisis. Millions of Americans are still looking for work and at risk of losing their homes. Construction is still very weak. It will take several more years to repair the housing market. Higher gas prices are putting more pressure on the average working family. And the damage is much more severe than the national averages capture in so many communities across the country.

Economic Growth

But even with the many challenges we face, the economy is healing and getting stronger. Today's GDP estimate shows the economy grew for the seventh straight quarter. And it's important to note, the private sector is leading this expansion. The private sector continues to boost its investments, purchases and hiring even as government spending continues to drop. If you look at the consensus of private forecasters, they believe that the U.S. economy is likely to grow between 3 and 4 percent over the next two years.

The underlying trends show the fundamental strength and resilience of the American economy.

The economy created nearly 2 million jobs over the last 13 months, and here in Michigan, the unemployment rate is now 3 percentage points lower that it was a year ago. So far this year, Michigan has added more than 51,000 jobs.

The personal saving rate in the United States, which was below 2 percent going into the crisis, is now between 5 and 6 percent. Our current account deficit—the amount we're borrowing from overseas—is now about half of what it was before the crisis as a share of the economy. Business spending on capital equipment has been strong, as companies are investing more in anticipation of future growth.

High tech, agriculture, and manufacturing, are showing broad-based strength. Export performance has been quite good, with real exports growing 12 percent last year. Overall economic output and total U.S. exports are now back above the levels reached before the crisis.

The tax incentives we put in place at the end of last year are providing a very powerful near-term catalyst for business spending on capital equipment, and they are now giving American families an average of $1,000 in tax relief this year through the payroll tax cut, which is helping them grapple with today's higher gas prices.

The most important thing we have to do now is to focus on strengthening economic growth, so that we get more Americans back to work more quickly, and make sure we emerge from this crisis stronger and more competitive over the longer term.

To do this, we have to continue to reinforce this process of repair and recovery, but also strengthening the long-term fundamentals for future growth.

This requires reforms to improve education, investments in innovation, modernizing our public infrastructure, and improving incentives for private investment.

Our challenge is to make sure America remains the best place in the world to start a business, to run a business and to grow a business.

Financial Repair and Reform

Now, briefly on the financial system, which was at the center of the crisis. How are we doing, how far have we come and what's still ahead?

Our basic responsibility, our core objective is to make the United States again the strongest financial system in the world, the best at channeling the savings of investors around the world to finance the ideas of growing companies, with the strongest protections for investors and a much better set of shock absorbers against future crises.

And we are well on the way to meeting that objective, far ahead of other countries that were caught up in this mess. And we're ahead of them because we moved more quickly and aggressively to infuse the financial system with private capital, to restructure, clean up, and put out of existence the weakest parts of the system, and to legislate reforms to modernize the basic checks and balances all financial systems require.

We have moved very quickly to recover the taxpayers' investments. At the peak of the emergency, we had roughly 2.8 trillions of dollars of the taxpayers' money at risk. Today, on reasonably conservative estimates, our bank investments will produce a positive return of billions of dollars, and overall, takings into account all the programs, we may in fact lose very little.

That means if you take all the Fed Reserve emergency programs, all the losses in the GSEs, all the investments we made in the banking system, automobile industry and insurance sector, the total costs will be very modest, well under 1 percent of GDP, or roughly a third of the cost of the much less severe S&L crisis.

We have a lot of work ahead in reforming the financial system. And we are going to put in place tough reforms, with much stronger protections for consumers and investors, and tougher constraints on risk taking by banks. This is essential for the future health of the economy.

Restoring Fiscal Responsibility

Now, on to the budget.

We have unsustainable deficits. Right now, we have to borrow 40 cents of every dollar we spend. To quote the foreign policy scholar Richard Haass, there are wars of choice and wars of necessity. Reducing the deficit is a war of necessity. There is no alternative.

Americans have to understand that our capacity as a country to finance investments in education and to fund protections for seniors, the disabled, and the poor require that we find savings that allow us to live within our means. And Americans have to understand that deficits matter, that deficits are not just the result of spending choices, but also of an unfair and broken tax system, that we cannot meet our national security challenges without restoring fiscal sustainability, and that the private sector cannot thrive without better education, public infrastructure, and investments in innovation.

Our deficits are too high. They will not be solved by future economic growth, and left unaddressed they will hurt future economic growth.

If you listen closely to what politicians are saying beneath the political rhetoric, you'll see that basic reality that we need to go back to living within our means is seeping in.

The challenge in fiscal reform is not just an accounting challenge, it's not simply a math challenge, it's not just deciding on the level of cuts. The fundamental policy challenge is designing budget reforms that leave us with the room to do the essential things, that preserve incentives for economic growth, with a balanced approach that is judged fair by the bulk of the citizens of the country.

This is going to be a formidable challenge for us. But it is a manageable challenge for the United States. It's not as hard as what we've just achieved in averting the risk of a second Great Depression.

Two weeks ago, the president laid out a broad strategy for restoring fiscal sustainability. And I want to highlight today the most critical elements of a credible strategy.

First, you have to commit to bring the budget deficit down to a level that will put our overall debt burden on a declining path as a share of the economy. You have to do it, in our thinking, by 2015. This requires achieving what people call a primary surplus, meaning that what you take in is more than what you spend, aside from interest on the national debt. You have to commit to a target for sustainability on the overall debt level that starts to put the debt burden on a declining path.

Second, you have to have a comprehensive and balanced approach that achieves savings across the core functions of the government, from defense through entitlements. And you have to include tax reform. Comprehensive is important because it allows the burden to be shared and makes the effects to the economy more manageable than if they were concentrated. That's why the President's plan includes $3 in spending cuts for every $1 in revenues achieved through tax reform.

Third key point—these cuts and reforms have to be phased in over time to avoid damaging the economic expansion. The biggest mistake countries make in financial crises—apart from waiting too long to act in the face of the gathering storm—is they put on the brakes too early. They shift too prematurely to abrupt strategies that put at risk the incipient expansion. So you have to lock these reforms in—but you have to phase them in to reduce that risk to the economy as a whole.

Fourth, you need to protect investments in things critical for future growth—again, like education, innovation, and infrastructure. So the reason why you want to live within your means is so you preserve room for doing things that support growth and opportunity for the country.

And finally, you need an enforcement mechanism. You need fail-safe discipline that will force Congress to make choices to live within constraints and make reforms even when they find a hard time agreeing on them. If we legislate a broad framework that locks in reforms over a multi-year period and forces future Congresses and executive branch officials to shrink the deficit, then we do not need to resolve immediately all the basic choices on things like health care costs and tax reform that still divide Republicans and Democrats. We can buy some time to resolve those longer-term questions if we lock in a multi-year framework of constraints that imposes a credible, binding fiscal rule on the U.S. government.

So our objective is to try to take advantage of this present moment and build a bipartisan consensus. And it has to be bipartisan. You can't do anything with just one party. And we have a chance to do that now because there is broad agreement among both Republicans and Democrats on the scale of the deficit reduction you need to commit to and achieve. Both sides are committed to reducing our deficit by $4 trillion over the next 10 to 12 years. And there's substantial agreement on some of the components of how to achieve that, and that gives us a real chance to lock in something productive today.

This crisis caused enormous damage, not just to the economy and not just to the basic economic security of all Americans, but also to confidence in the ability of our system of government to solve problems.

Confidence in the American economy will increasingly depend on our ability to demonstrate again that we have a political system that works, that can deliver reforms commensurate with the size of our challenges, and that can bring people together even when many things still divide us.

And we can do that. You know, I sit in the office occupied by Alexander Hamilton and 73 other men. And if the politics feel terrible now, think back to all those times in our history when they were much tougher.

We can meet these challenges. We just have to choose to do the right thing.

Thank you.