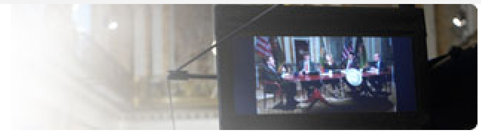
U.S. DEPARTMENT OF THE TREASURY

Press Center



Remarks by Secretary Tim Geithner before the Greater Baltimore Committee

5/17/2012

As prepared for delivery

BALTIMORE, MARYLAND – Thank you, Don, for that introduction. Thank you to Brian Rogers and the Greater Baltimore Committee for hosting this event today. I want to recognize Mayor Rawlings-Blake, who is doing so much for this city. And we're also joined by Treasury's Under Secretary for Domestic Finance Mary Miller, who is a longtime Baltimore resident.

It is a pleasure to be here with you to talk about the American economy—its strengths and challenges, as well the important economic decisions we face as a nation.

How is the U.S. economy doing today?

The economy is gradually getting stronger, and we have come a long way since 2008, but we still have a ways to go to repair the damage caused by the crisis. And we face some tough challenges, including many that preceded the financial crisis.

The U.S. economy has expanded at an average annual rate of 2.5 percent since the summer of 2009. Our economy has grown by almost 7 percent since mid-2009.

The private sector has added more than 4.2 million jobs since job growth resumed, including almost 500,000 manufacturing jobs—the strongest manufacturing job growth since the mid-90s.

Importantly, growth has been led by the private sector, particularly investment and exports.

The balance sheets of businesses are strong. The economy is more productive than before the crisis.

Investment in equipment and software has risen by 34 percent over the past two and a half years. Exports have grown 26 percent in real terms over the same period. And growth in investment and exports has far outpaced the average for comparable periods after the last eight recessions.

Growth has been relatively broad-based, with increases in manufacturing, energy, agriculture, and high tech, offsetting the continued weakness in housing and construction and the contraction in government services and employment. American companies are starting to move production back to the United States after decades of offshoring.

We are making significant progress in working through the excesses and imbalances that helped cause the financial crisis.

Household debt is down almost 20 percentage points relative to income and is roughly back to 2004 levels. Financial sector leverage is down substantially and credit is expanding. Housing and commercial real estate construction are starting to pick up after five years of contraction. Americans are saving more than before the crisis, and our budget deficit has started to decline as a share of the economy.

We are borrowing less from the rest of the world; relative to GDP, our current account deficit is now half the level it was before the crisis.

These encouraging improvements in the economy are the direct result of the crisis response strategy put in place by President Obama, alongside the Federal Reserve and the FDIC, to put out the fires of the financial crisis, restructure the automobile industry, and restart economic growth.

The President has also put in motion another set of crucial changes.

Millions of Americans now have health care with better coverage because of the Affordable Care Act, and health care costs are rising less rapidly. We are becoming more efficient in how we use energy, drawing more on clean energy sources, and less dependent on foreign sources of energy. And in communities across the country, we are seeing promising reforms in education to improve the quality of teaching in science and math and to reduce the cost of and improve access to higher education.

We still have a lot of work to do to repair the damage from the crisis and get more Americans back to work. And we still face some risks ahead. We still live in a dangerous and uncertain world, with Europe confronting a severe and protracted crisis. The world is engaged in a critical struggle with Iran, which has added to upward pressure on oil prices. And at the end of the year, we face the simultaneous expiration of tax cuts and large across-the-board cuts in spending. This presents a risk, but it also provides an opportunity for bipartisan agreement on reforms to restore fiscal sustainability.

The acute damage caused by the financial crisis hit an economy already suffering from a slow burning mix of formidable long-term challenges.

These challenges include: The failure of our education system to keep up with the rest of the world. A long period of stagnation in the real median income. Diminished confidence in the ability of Americans to exceed the economic achievements of their parents. A substantial ongoing shift, over the last 25 years, in the risk and cost of health care and retirement security away from employers and to individuals. A deteriorating public infrastructure. The erosion in our fiscal position in the last decade. And poverty rates much higher than in any economy with comparable wealth.

Confronting these problems is the most important economic policy challenge facing the nation.

We can all be in favor of smarter regulation, more efficient government, lower future deficits, and a more simple tax system, but these mere desires do not add up to a strategy that meets the challenge of the moment. They do not amount to a plan for a stronger, more competitive economy, with broad-based gains in income. A credible strategy for economic growth requires a willingness to do things, not just to cut things.

The President's strategy combines actions to help speed the economic recovery with reforms and investments to lay the foundation for stronger future growth.

Now, as we focus on the future, it is important to recognize that to better position us to deal with future challenges we have to strengthen growth now, get more Americans back to work, and repair the remaining damage from the crisis. Congress acted this week to reauthorize the Export-Import Bank, which helps American businesses sell their products around the world.

But there's more to be done. Congress must act quickly to prevent interest rates on student loans from doubling this summer and pass a transportation bill to put thousands of construction workers back on the job.

And the President has proposed five additional steps that Congress can take right now to grow the economy—helping Americans refinance their mortgages, creating incentives for companies to bring jobs back from overseas, putting veterans back to work, creating jobs by investing in clean energy, and cutting taxes for small businesses.

Since taking office, the President has signed into law 18 tax cuts that directly help small businesses and supported billions of dollars in small business loans through the SBA and the Small Business Lending Fund. The President's current proposals would give a 10 percent income tax credit to firms that increase wages or create jobs in 2012 and would extend the 100 percent expensing provision through 2012 for all businesses.

Alongside immediate steps to help the economy, we also have to continue to work to put in place a stronger foundation for future growth. Investments in education, to help Americans compete in the global economy. Investments in innovation, to stay on the leading edge and offer the best jobs possible. Investments in infrastructure, to reduce costs and increase productivity. And reforms to improve incentives for investing in the United States—including reform of our business tax system.

These investments and reforms, of course, have to come as part of a carefully designed, balanced package of long-term reforms to restore fiscal sustainability.

Like Bowles-Simpson and all the bipartisan deficit reduction plans, the President's approach combines spending savings across the government with tax reforms that would raise a modest amount of revenue.

These reforms would be phased in over time to protect economic growth and give Americans time to adjust. They would cut roughly two-and-a-half dollars in spending for every dollar in revenue raised. The spending savings would build on the cuts put in place last summer, with reforms to programs like farm subsidies and changes to make Medicare and Medicaid more financially sustainable.

The tax increases would fall only on the top 2 percent of individual earners. And tax reforms would lower the corporate rate and eliminate inefficient tax preferences for businesses, improving long-term incentives for investment and research and development in the United States.

Most of the savings from spending cuts and the revenues from tax reform would go to reduce our long-term deficits to the levels necessary to start to reduce the overall debt burden as a share of the economy. But the President believes it is essential, as we reduce our long-term deficits, to expand investments in key areas that will help increase long-term growth and improve opportunity.

Overall, by combining tax reforms with spending savings, the President's plan will reduce deficits without cutting deeply into the safety net for low-income Americans, without undermining our national defense, our ability to improve education, or our commitment to health care security for retirees.

Any sound fiscal reform plan should pass three basic tests. Is it phased in over time, so it doesn't undermine economic recovery? Does it balance spending restraints with modest revenue increases, so that the middle class and retirees don't bear too much of the burden, and so that we can make the investments necessary for economic growth? And finally, does it protect long-standing, bipartisan commitments to health and retirement security?

Remember, the basic arithmetic of fiscal and economic policy is not political. There is no Democratic or Republican fiscal math. If you try to restore fiscal balance without a penny of additional revenue, then you have to cut deeply—too deeply—into critical functions of government.

Just one example—the cost of extending the Bush tax cuts for the top 2 percent of earners for the next decade is about one trillion dollars. Tax cuts don't pay for themselves. You have to pay for them. We can't afford to borrow the money to extend those tax cuts, and we won't agree to cut benefits for seniors or cut investments in education to pay for those tax cuts.

We face some very tough challenges. But they are manageable challenges for the United States. And I prefer our challenges to those of any economy anywhere in the world.

The economic challenges we face today—an economy still healing from the financial crisis, Europe caught in a damaging economic crisis, the remaining threats to our national security, the competitive challenges we face from other nations—these challenges can only be met with an economic agenda that focuses on strengthening economic growth, investing in education and innovation so that we are expanding income growth and opportunity, and a balanced approach to restoring long-term fiscal sustainability.

These challenges cannot be solved by an economic agenda of severe, immediate austerity, combined with deep, permanent cuts in education and the safety net for retirees, caps on spending that could not plausibly accommodate the 25 million Americans who become eligible for Medicare and Social Security over the next 15 years, opposition to financial reforms, irresponsible promises to cut taxes, and serial threats to default on the nation's credit.

We have successfully navigated the most dangerous phase of the worst economic crisis in generations. We need to bring the same creativity and force and sense of national purpose to the challenges ahead.

That will require better choices from our political system. And it will require recognition of basic economic realities. No economy can be stronger over time than the ability of its political leaders to come together to make tough decisions.

###