U.S. DEPARTMENT OF THE TREASURY

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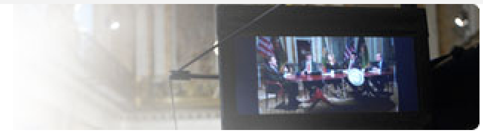

Corrected Remarks of Secretary Lew at The Economic Club of New York

6/11/2014

Corrections marked with asterisks.

Thank you, Roger, for that kind introduction, and thank you all for coming this morning. It is a pleasure to be here at the Economic Club of New York, which has been at the center of economic policy discussions for more than 100 years. I appreciate this chance to discuss some of the challenges and opportunities we face.

We meet today during a period of fundamental change in our economy. Our population is growing older. The skills needed in today's workforce are shifting. Global competition for business and investment is becoming more intense. And technological innovation is happening at a rapid speed.

Our core responsibility is to make sure our economy is as vibrant and robust for our children and grandchildren as it was for previous generations. And the ultimate test for all of us will be how inclusive tomorrow's economy becomes and how widely our economic gains flow.

The American story has always been one of embracing change — capitalizing on groundbreaking ideas, inventions, and events to build a better future for the next generation. And the combination of our innovative spirit and smart public policy has always been a recipe for success in this country.

After the industrial revolution and the steam engine increased productivity and efficiency, it was leaders like Teddy Roosevelt who fought for an eight-hour workday to improve working conditions. After electricity transformed cities, it was FDR who brought power to farm lands, mountain communities, and other remote areas of the country. And after innovations in engineering led to the creation of the automobile, it was Dwight Eisenhower who changed the United States forever by building the Interstate Highway System, boosting commerce and productivity, giving Americans of all walks of life new choices about where to live, work, and travel.

Yet, many today wonder whether something that has always been true in our past will be true in our future. There are questions about whether America can maintain strong rates of growth and doubts about whether the benefits of technology, innovation and prosperity will be shared broadly.

We have the capacity today, as in our past, to address these concerns as long as both the private sector and the public sector commit to policies that strengthen workers, innovators, and investment. It is up to each of us—government and business—to make choices that will secure our future.

Today, I want to discuss how we can meet the challenges of the 21st Century by focusing on things we can do to expand the potential of our economy and allow anyone willing to work hard to succeed.

We meet at a time when structural not fiscal challenges demand our immediate attention. This Administration has always been committed to meeting our obligations in a fiscally balanced and responsible way. We have made tough choices to shrink our budget deficit by more than half. And over the next 10 years, we are on a path that will put our debt as a share of the economy on a declining trajectory and reduce our deficit to below 3 percent of GDP.

Of course, we have all known for decades that Social Security, Medicare, and Medicaid face long-term challenges stemming from an aging population and the cost of health care. And we will need to address these challenges to make sure the promises at the core of these programs remain ironclad. But we are not grappling with a rapidly widening budget deficit that requires urgent short-term action, nor do we face an economy in free fall. We are already seeing a slowdown in rising healthcare costs. So in the debate over entitlements and how much revenue we need in the medium and long term, we will be better served if we concentrate first on building a firm foundation for future economic growth. The crisis we face today is the need to make sure the economy is expanding fast enough to support a growing middle class and greater opportunity for all Americans. Investments that boost growth and job creation today, tomorrow, and 25 years from now will put us in a stronger position to address our future fiscal challenges.

Evidence continues to mount that our economy is gaining traction. After a slow first quarter, partly because of a harsh winter, we, along with most forecasters, expect the underlying strength from the end of last year to continue and lead to a much stronger second quarter and second half of this year. Nevertheless, we cannot escape the fact that millions of Americans continue to struggle, and their pain reminds us that our work is not yet finished. Unemployment is still too high and economic growth is still too slow. And for too many families this hardly feels like a recovery.

As we work to accelerate growth and create jobs, we face economic challenges already in motion well before the economic crisis. For example, the labor force participation rate has been falling for some time now. After decades of increases as women entered the workforce, the labor force participation rate turned down in 2000, and the decline accelerated during the recession. Increases in the level of income inequality similarly predate the recession, but since the recovery began, while corporate profits and non-farm productivity have risen, hourly compensation only just started rising, and not by enough to make up for lost ground. As our economy grows and our workers become more productive, this progress needs to reach the lives of more hardworking Americans.

From 1948 to 2007, the U.S. economy grew, on average by 3.4 percent a year. The Congressional Budget Office now projects that after the economy settles back to full employment, the economy will grow at a rate of 2.1 percent—or only at about two-thirds the post-war levels.

But here is something we know: The choices we make over the years to come can alter this projection.

Economists describe economic potential as our capacity to produce goods and services. And we can only expand our potential if we focus on the three pillars that have made the U.S. economy a global powerhouse: the dynamism of our workers, investments that make us more productive, and our capacity for innovation.

We can debate how to invest, but there is no debating that investment in these three critical areas is the key to our long-term growth. And how we make these investments will shape the economy and the opportunities of our children and grandchildren.

America's Potential
A Workforce of the Future

First, our workforce. Our workers are the most creative, hardworking, and resilient in the world, and they are the backbone of our economy. But the growth in our workforce has slowed considerably. From 1948 to 2007, we added approximately 93 million people to the workforce, or 2 percent per year. Since the recovery started, the average annual growth in the workforce was just 1 percent.

And since 2008, the labor force participation rate has actually fallen by 2.7 percentage points. The Council of Economic Advisors has estimated that about half of the decline is a result of our aging population. And the fact that Baby Boomers who contributed to the economy are leaving the work force to enjoy well-deserved retirement is a good thing; they are already on track to work longer than previous generations. But we should not allow a lack of employment opportunities or outdated skills to push a generation of workers into early retirement. We also need to make sure that young adults coming of age after the Great Recession are not trapped in a no man's land as the long-term unemployed.

For every job opening in the economy, there are now 2.2 unemployed Americans. But that will not always be the case. And among the unemployed, about one out of every three unemployed workers has been out of a job for more than six months. We know that after a long period without work, you are much less likely to re-enter the workforce than if you have been jobless for just a short period of time. But if the long-term unemployed give up on the labor market, it is not only an individual tragedy, it means we lose their productive economic capacity forever.

Now, as daunting as these challenges are, we can confront them.

Let's start by looking at something that every business can do. The President has called on CEOs of large corporations to make a good-faith effort to hire from the ranks of the long-term unemployed. Because of misperceptions and screening policies, it is hard to even get an interview after a long period without work and these workers can sometimes face outright discrimination. We need to give the long term unemployed a fair chance for a new start.

The Administration and a group of bipartisan lawmakers have been pushing to restore the lifeline of emergency unemployment insurance for the millions of long-term unemployed. And while Congress has not yet acted, it remains a fact that this assistance would go right back into the economy, benefitting American businesses and creating American jobs.

But we also need to do a better job helping workers who want to re-enter the workforce. For workers born decades before anyone knew what an "app" was, we need to make sure that worker training, career counseling, and job placement are available so that we don't throw out years of experience just because we need to update the tools in their toolkit. And we need to make sure that business is engaged in the choices we make in government training programs, so that these programs promote skills needed in the workplace.

To be effective, it must be a group effort, and the Administration has brought local governments, businesses, and community colleges together to increase apprenticeships and job training initiatives, and we have taken action to reform federal training programs. In addition, there is now a bill moving through Congress that is supported by Democrats and Republicans in both the House and Senate to overhaul worker training programs.

As we modernize the way we prepare workers for today's economy, we also must modernize our tax system so that it encourages more men and women to hold onto their jobs. The Earned Income Tax Credit has done a lot to help families get a start, and to make it possible to live on entry level wages. But right now, we want to expand it so childless workers who are just starting out can stay in the workforce, see the value in keeping a job, and become lifelong contributors to our economy, while helping employers retain workers. Strengthening programs like family leave and early childhood education will also make it easier for mothers and fathers with young children to stay in the workforce. The largest increases we saw in the labor force in the last century came as women entered the workforce. Supporting families is a proven way to tap into our human capital resources. And we need to raise the minimum wage so working full time at least gets you above the poverty line.

Of course, we cannot repeal the Baby Boom, but we can address the resulting decline in the labor force by addressing our outdated, economically backwards immigration system. There are millions of people around the world who dream of coming to the United States to do what Americans have done since the beginning of our country—work hard, play by the rules, raise a family, and contribute to our vibrant economy. And throughout our history, the rich tradition of welcoming immigrants to our country has been a hallmark of our economic success.

Quite simply, immigration reform is good economic policy. The nonpartisan Congressional Budget Office has estimated that the immigration reform bill, which passed the Senate on a bipartisan basis last year, would increase the labor force, boost GDP by 3.3 percent* over the next 10 years, and improve our fiscal position by $158 billion, strengthening the Social Security and Medicare trust funds. It will also create a new wave of consumers who will fuel demand and generate economic activity. And we know that immigrants and children of immigrants are more likely to start new businesses. Forty percent of the Fortune 500 and countless tech firms have been started by immigrants or their children.

America has a world-class education system, but we need to continue to address the uneven access to quality education. When it comes to early, middle, and high school education, many of our children are ill-served. The President wants to expand ConnectEd and other programs that provide students from rural and urban communities with access to the latest technology to make sure that the digital divide does not leave a large portion of our students behind. As the President asked when he introduced ConnectEd, "In a country where we expect free WiFi with our coffee, why shouldn't we have it in our schools?"

We know that we are making progress. National high school graduation rates have hit new highs, driven by increases among minority students. We also know that post high school education is the key to economic opportunity. For many, four year colleges are the right answer. But for others—we need to make sure they have the right choices to gain the skills needed for the 21st century economy. Associate degrees, industry-accepted certifications, and earn-while-you-learn apprenticeships are the right approach for many. The truth is, we have to create more higher education options. For instance, we should ask ourselves if earning an undergraduate degree in three years might be a better, more cost-effective option for some students to get their education. And we need to focus on ways to make higher education more affordable, including making student loan debt more manageable.

Investing In America

Now let me talk about investment. For years we have heard that businesses need more confidence in the future before they will invest again – but indices of both consumer and business confidence are stronger now than any point in a long time. Instead of facing recurring government crises, we have a path for predictable and stable policy for the next two years. And capacity utilization is rising again. Now is the time to take a fresh look at opportunities to invest in our economy.

Investing in our country —in plant and equipment - has always driven our potential.

From 1948 to 2007, nonresidential fixed investment grew at an average annual rate of 8 percent, fueling our industrial base and the booms of the 1950s, 60s, 80s, and beyond. But during the recent recession, nonresidential fixed investment fell sharply, and since the recovery began, has only grown at an average annual rate of 5 percent*. American businesses are sitting on historically high levels of cash, and what we need now is for businesses —including many of you in this room— to come off the sidelines and make investments in our future.

Meeting with foreign leaders, I am told over and over how the foundation of our economy makes the United States an ideal place to invest -- our stable rule of law, strong protections for intellectual property, research institutions, vibrant supply chains, proximity to large consumer markets and our thriving energy sector. To get long term investment back where it should be, you need to do your part, and we need to do ours.

To encourage domestic investment, the President wants to reform our tax system by lowering statutory business tax rates and leveling the playing field so that investment flows to where its return is greatest, not simply where taxes are lowest. We need a tax code that stops rewarding companies when they open up operations overseas and starts rewarding companies for bringing operations home.

Now, we often think about American firms investing elsewhere, but in 2011, the President started an initiative called SelectUSA to bring more job-creating investments to the United States. And today, when surveyed, businesses around the world rank the United States the best place to invest.

To make investing in America even more appealing we need to make infrastructure investments a priority again. Building our roads, railways, bridges, and ports has been one of the most historically bipartisan ways to create jobs today and lay a foundation for future economic expansion.

I grew up in Queens, and could walk two blocks to the subway for a 20-minute ride to midtown. In fact, many afternoons in high school, I did just that. So I understand what good, reliable transportation options mean to families, workers, and businesses. But it does not matter whether it is Long Island City, Kansas City, or Salt Lake City, strong infrastructure is essential for strong economic growth. Congestion hurts businesses and workers, and it costs time, money, and energy.

And when you think about how our ports are not ready to handle modern supertankers even as the Panama Canal is being made deeper, how the vast majority of our water pipe network was installed after the Second World War, how our mass transit systems are both inadequate and in need of repair, and how more and more of our bridges are regularly cited as public dangers, there is no question we need to get this done.

Other countries understand this, and they are making the kind of investments that we keep putting off.

That is why we are pushing for the reauthorization of funding for highways. It is also why the President has put forward a proposal to create an infrastructure bank to make smart and effective investments, with public and private partnerships. The American Society of Civil Engineers projects that, by 2020, the deficiencies in our infrastructure will cost business more than $1 trillion every year in lost sales. To pay for this, the President would use one-time transition revenue resulting from business tax reform, which is a double win, making the United States an even more attractive place to invest.

This Administration recognizes how imperative this is. That is why we have cut the red tape that slows progress. For example, by fast-tracking the new Tappan Zee bridge, the Administration helped the project reach the construction phase in a mere 18 months, shaving as much as three years off the schedule. The first span is now expected to open in 2016—just two years from now—and the bridge should be fully completed by 2018.

When CEOs are deciding where to locate, they need to know that roads are efficient, that railways can move their products, and that ports are deep enough to handle the demands of a global economy. And it just makes sense that partnerships between the government and the private sector should be part of the solution. Again, the choices that we make—or fail to make—will shape the economy of our future.

Rewarding American Innovation and Productivity

Finally, let me discuss the important role technology plays in our economy. Between the end of World War II and 2007, the contribution to economic growth from technological change has averaged just over 1.2 percent a year, or enough to double output about every 60 years. The truth is, technology has the ability to transform the economy in ways we can only imagine today. Still, there are those who fear the IT revolution will mean a permanent state of high unemployment and low-wage jobs. But, history tells a very different story. There has never been a time when technological gains have caused decades of unemployment in the United States, but it is true that the transitions can be hard, and managing today’s technological transition is critical.

We need a deep commitment to Science, Technology, Engineering and Math education so that the next generation has the skills to keep making innovations, and the training to be analytical and innovative in a competitive and global market. And Federal support for cutting edge research and development remains critical if we are to remain the leading innovator in the world.

Just think, the productivity of the American worker is now about four times what is was at the beginning of the 20th Century. This means that we should need only one-fourth of the workers we had in 1900 to produce everything we produced then. Yet the innovations of the early 20th Century that led to this increase in productivity did not lead to a time when three-quarters of our labor force was ever underemployed or unemployed. What happened time after time is that when innovation and productivity drove change and economic growth, our workers adapted and more people were needed for new jobs.

Over the past year, I have visited a number of factories in our resurgent manufacturing sector. From electronics to consumer appliances and from auto parts to information technologies, what American plants can produce is amazing. But more amazing still is how much each worker in those plants is producing because of the skills they have and the cutting-edge technology they use.

Technological innovation and entrepreneurial spirit has long been our great strength. And our policy choices can make this just as true for the future. Yet we face a number of challenges in the years to come. We need a credible long-term funding plan for basic research in this country. We also need to reform our intellectual property rights system in order to reward real discovery, discourage patent trolling, and allow scientific advancements to get into the hands of those that need them. Research and development are critical to unlocking private sector innovation, and that is why this administration and lawmakers on both sides of the aisle want to reward long-term investment and make the R&D tax credit permanent.

A Better Foundation for the Future

Even as we are working hard to get back to full employment, we cannot afford to simply live up to our potential, we must expand it. Many of the policies I have just discussed have bipartisan support, and they will help secure our economic future.

And the pendulum in Washington may be swinging back, at least a bit. After years of mistrust and gridlock, in the last six months Democrats and Republicans have found common ground to do a number of key things—passing a farm bill, setting our budget priorities, funding the government, and extending the debt ceiling. We now have an opportunity to forge ahead on things that have broad bipartisan support, like infrastructure investment and tax reform. You need to demand that Washington does its part.

When Henry Ford rolled out the Model T, he could not have imagined where it would lead. In the 1990’s, we could not see the huge impact of technology on productivity that we later learned was revolutionizing the workplace. And today a breakthrough is happening somewhere in America -- perhaps in a garage or a dorm room. If we take the right steps, our economy will be primed to take advantage of the next innovation. Doing so will require an engaged American workforce, a business sector investing in America, and a government whose policies are aimed at the future and shared prosperity.

So what economy are we leaving to the next generation? The choices we make will answer that question. Economists—who almost never agree—all agree about what determines the long-run success of an economy. The labor force, the capital stock, and technological innovation. Those components have always been the driving force, the source of the “Wealth of Nations” to use Adam Smith’s words. While government can eliminate obstacles and provide important tools, the government is not what makes an economy. The private sector is the defining feature of our economy, and the joining of sound policy with a surging private sector will determine our economic future.

Thank you.

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