NUEVOS ARTICULOS SOBRE ASUNTOS ECONOMICOS
EAS:4/01-107:8

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U.S. ECONOMIC POLICY

Paul O'Neill,
U.S. Secretary of the Treasury;
before the National Association of Business Economists,
Washington, DC, March 27, 2001

Good morning.

The U.S. economy will remain the great engine of prosperity for the world because innovation thrives here. If you have a good idea, this will always be the best place to make it happen.

Why is this true? Because we have amazing flexibility in our capital and labor markets, broader and deeper capital markets that match resources to good ideas faster than anywhere else in the world, creating greater return on capital here than anywhere else in the world. We have the world's most productive workers and the world's freest labor markets. Free markets, productive labor and lower taxes will in turn keep capital flowing here, even during a downturn like the one we are experiencing today.

The strength of the U.S. economy is not to be found in any one asset price or any one number. The strength of the U.S. economy is in the flexibility and adaptability with which our markets and our people develop new ideas and respond to new challenges.

Before we assess the current economic slow down I think it is important to put it in the proper perspective. Of course you all know that this recent slowdown is still part of the longest economic expansion in American history. That expansion began in March, 1991, a full 10 years ago.

Our key challenge is to keep the U.S. economy on the path to the highest possible sustainable real rate of growth over the next 25 to 50 years. Perhaps the single most important thing in economic policy is that we work to keep ourselves on a track of real growth rates at the upper end of what most people believe is possible, because without that we are so hobbled in doing the other things that we care about as a society. Growth makes our other goals more easily attainable, whether its retirement security or income security. And reducing marginal tax rates is one of the most important contributions to growth we can now make.

WE'VE BEEN DOING PRETTY WELL, BOTH RECENTLY AND FOR THE LAST 20 YEARS

The U.S. economy has been the envy of the world because of the high rates of real growth that we have achieved for most of the last two decade. Even in recent years, real GDP growth accelerated to more than 4% a year since 1995 and the unemployment rate fell to the lowest in 30 years. This occurred even as the inflation rate remained low and stable, with consumer prices rising just 2-1/2% a year over the last five years.

The United States prospers because of the flexibility and adaptability of its markets. That is government's role - to ensure the continued ability of U.S. markets to adapt to new circumstances, rise to new challenges, and embrace new ideas.

This ever-increasing prosperity began in the early 1980s with the tax cuts, deregulation and free-trade policies of the Reagan Administration. I would take you back to 1980. There were lots of us out there in the world that makes real things who went and looked at the rate of progress in some other countries around the world and were startled to find that, while we were beating our breasts about how good we were, they were better. Let me tell you, fear of competition and failure is a strong motivator. And we rose to the challenge. We incorporated good ideas we discovered elsewhere, like just in time delivery. We welcomed new technology to increase productivity.

And now out in the world where people make real goods, the U.S. has recaptured the lead and we are not ever going to back down again. We are determined to lead the world. That is how we have actually gotten the huge tax surpluses we have in Washington today. They've come from hard-working Americans making things, creating jobs, improving productivity and achieving higher wages.

The U.S. economy has experienced an extraordinary pickup in productivity growth during the past five years. Since the end of 1995, the productivity of labor in the non-farm business economy has averaged a 2.9% annual rate, the strongest performance for any five-year period since 1968 and more than double the 1.4% rate averaged from 1973 through 1995.

Growth of productivity has helped keep labor costs per unit of output under control. Unit labor costs have risen at only a 1.5% annual rate over the past five years, compared to 4.5% from 1973-95. Even so, in real terms hourly compensation has risen by 2.0% annually during the past five years, up from 0.7% during the 1973-95 period, creating a virtuous cycle of low inflation yielding high real wage gains without forcing compensation costs higher.

To what can we attribute the revitalization of productivity growth? Some of these improvements are due to the expanding role of information and communications technology in the economy. More important has been the mentality of the U.S. citizens who saw the promise of this new technology. Lowering taxes and cutting red tape since 1980 has created an atmosphere where the rewards to hard-work and risk-taking inspire scientists, entrepreneurs, and investors to new heights of achievement.

ASSESSING THE RECENT SLOWDOWN

We must view the current slowdown within the broader context of recent economic performance:

- The U.S. economy is fundamentally sound, with low inflation and low unemployment.

- Although equity markets have been unsettled recently, we need to recognize that broad equity measures still have tripled in value over the past decade.

- Let's not make the mistake of focusing on what's easy to measure rather than what's important. Strength of U.S. economy is not reflected in any one asset price or number but in the flexibility and adaptability of our entire economy to new challenges.

The recent slowdown occurs against the backdrop of this fundamental soundness and follows on the heels of the extraordinary real growth of recent years - with real GDP growth averaging in excess of 4% per year over the past 5 years.

But the U.S. economy also faces real challenges. The investment boom of recent years masked the detrimental effects of over-taxation.

Neglect of the energy sector opened the way to a painful increase in prices and in some cases outright shortages.

WE KNOW THE KEYS TO CREATING GROWTH AND PROSPERITY

- Stable government policy.

- Tax reduction and debt reduction strategies.

- Maintaining price stability

- Increasing efficiency through regulatory reform

- Investment in human capital, the source of the ideas for technological improvement and productivity gains;

- Open markets, which give consumers access to the best goods and the lowest prices in the world; allow our workers and businesses to compete and be the best in the world; and allow our farmers to be the most efficient and feed the world. An estimated 12 million jobs depended on exports last year, or one out of every eleven.

- Global price pressures force companies to continuously improve. And 95% of the world's consumers live outside our borders. So free trade is extremely important to maintaining U.S. productivity.

POLICY PRESCRIPTIONS

Right now, we must pursue economic policies that address the short-term slowdown while laying the groundwork for long-term growth. I think, far and away, cutting marginal tax rates is the cleanest and simplest instrument that we have available to have an impact quickly. And we must cut every rate. Today, 17 million business owners and entrepreneurs are taxed under the individual income tax rates. Many of them are taxed at the highest rate, 39.6%. These small businesses are the engines of growth and job creation in our economy. Yet today our tax code punishes them with the highest marginal tax rate. Returning to strong growth requires that these entrepreneurs keep more of their own money to invest in new workers and new technology.

The President's tax relief package structurally reforms a tax code that is taking too much from working Americans and placing a drag on our economy. The President asked the Congress to pass his tax relief package quickly, and make it more retroactive. I've been working with the Congress to figure out how we can do just that - because retroactivity and rate reform will provide a short-term stimulus and enhance long-term growth.

Some suggest we send a rebate to the taxpayers now, and stop there. That's not good enough. I was here when we tried that in 1975, and it just didn't work. If we want to change consumption patterns, we need to make a permanent change in people's tax burdens.

The current short-term slowdown in the economy does not change the fact that Washington will bring in enormous surpluses over the next ten years if we do not reform the tax code. The economic assumptions underlying the $5.6 trillion surplus estimate anticipated a slowdown in growth during the next two fiscal years. Our forecasts are right in the middle of the range of private sector forecasts available today.

I'm therefore confident that enacting the President's tax plan is fiscally responsible. And even after providing $1.6 trillion in tax relief and locking away the $2.6 trillion Social Security surplus, we maintain a responsible cushion in case of unexpected needs. And we'll pay down every possible dollar of publicly held debt over the next 10 years. It's time to get money out of Washington that would otherwise be spent on bigger government, and leave it with the people who earned it and know better how to spend it productively.

We have additional work to do, reforming Social Security to protect current and future retirees and increase the savings potential of younger working Americans; and improving the productivity of our health care system to increase patient care while reducing skyrocketing costs.

We must also expand trade and work to improve growth in other vital economies around the world. With regard to Japan, it is crucial for the second largest economy in the world to return to a path of strong and stable growth. I will save that for a later date, and simply point out how crucial it is to the standard of living around the world that the second largest economy in the world return to a path of stable growth.

I'm looking forward to helping the President with his trade initiatives later this year. It seems to me so obvious that we are sufficiently good and should hold ourselves to a high enough standard that we should not fear absolute free trade. In the right kind of world, in the world that we should dream of, we should be thinking free trade, absolute free trade without trade and tariff barriers, anywhere.

Together, these initiatives can help to ensure that the current slowdown is short-lived. And they will lay the groundwork for another consumer-led expansion and a new golden age of prosperity here and around the globe.

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