

U.S. DEPARTMENT OF THE TREASURY

Press Center

**Secretary Paulson Remarks on the Economy Before the U.S. Chamber of Commerce**

1/22/2008

Washington- Thank you, Bruce, and good morning. It is good to be here for an early start to what will be a busy, and I hope productive, week. On Friday, President Bush announced his outline of an immediate and meaningful fiscal growth package that will boost consumer spending and support business investment this year. The President and his economic team have been tracking economic signals closely for some time now, and I and my team have been actively engaged with policymakers here and around the world as we closely monitor the global equity correction. I continue to have confidence in the underlying strength of the global economy.

The U.S. economy is experiencing a significant housing correction. This was inevitable after years of unsustainable home price appreciation, and it is exacting a penalty to our economic growth. That, coupled with high energy prices and capital market turmoil has caused our economy to slow materially in recent weeks.

We are already taking aggressive action to minimize the impact on homeowners and the real economy by preventing avoidable foreclosures. We will continue to work with Congress to do more on housing. At the same time, we will work with Congress to quickly enact a broader temporary growth package to support our economy this year, as we weather the housing correction. The President has asked me to lead this effort, and so far we are engaged in a collaborative, bipartisan process that should result in a robust, broad-based, temporary growth plan that can be swiftly passed and enacted.

The U.S. economy is resilient. The unemployment rate remains low and job creation continues, albeit at a modest pace. The structure of our economy is sound and our long-term economic fundamentals are healthy. I have visited countries all over the world, and the more I see the more sure I am that America's workers are the most productive and innovative anywhere. But we need to do something now, because the short-term risks are clearly to the downside, and the potential benefits of quick action to support our economy have become clear.

Specifically, the President called for a robust package that is large enough to have a real impact on our economy and will bolster consumer spending and business investment this year. We know from experience that both immediate tax relief for income tax payers and incentives for businesses to invest and hire are effective in creating growth and jobs in the short-term.

I spent much of last week and this weekend talking with Republican and Democratic congressional leadership and members of Congress from across the nation. These positive discussions have revealed broad agreement on the need to quickly enact a temporary plan that boosts our economy this year.

The President's outline reflects ideas from these consultations and represents a solid foundation for cooperation. Time is of the essence, and the President stands ready to work on a bipartisan basis to enact economic growth legislation as soon as possible.

I am optimistic that we can find common ground and get this done long before winter turns to spring. By working together, we can disprove the old Washington axiom that partisan politics prevents most short-term growth packages from being enacted fast enough to do any good.

Four criteria will guide my efforts going forward. As the President said, the legislation that will best serve our economic interest must be swift, robust, broad-based and temporary.

It must be swift. The legislation must be enacted quickly, and the elements of the legislation must have immediate impact. If we miss this, we miss the mark.

It must be robust. The President proposed a package approximating one percent of GDP --- anything less than that will not have a meaningful impact. Raising taxes to offset these initiatives will diminish potential job creation and growth benefits. The last thing we should do right now is take money out of the economy.

It must be broad-based. To be effective, the package must reach a large number of citizens. To move quickly through the legislative process, we should keep this proposal simple. Debates over favorite programs will inevitably bog down the process. We want to act in time to help families get through a tough economic time.

And, finally, it must be temporary, to avoid impacting our long-term fiscal position.

Our focus on short-term growth does not supersede or minimize our commitment to the economic policies which we know to be in our country's long-term best interest ---- a pro-growth tax system, entitlement reform and a balanced budget. We will continue to advocate making the President's tax relief permanent, balancing the budget, and addressing the long-term sustainability of Social Security and Medicare. To succeed in quickly enacting a short-term growth package, I am confident Congressional leaders agree that the debate over these longer-term issues will proceed apart from this effort.

In addition, the Administration continues our on-going efforts to minimize the housing market's impact. We have made progress. Last Friday the HOPE NOW alliance, a coalition representing over 90 percent of the subprime servicing market, as well as non-profit mortgage counseling organizations, trade associations and investors, announced promising developments. This industry-wide effort employs multiple tools to reach and help struggling homeowners, including streamlining subprime borrowers into refinancings and loan modifications. According to HOPE NOW, the industry assisted 370,000 homeowners in the second half of 2007, and mortgage servicers modified subprime loans during the fourth quarter at a rate three times faster than in the third quarter.

As I have said, entire industries do not adjust easily or quickly, even when markets are calm. This alliance is demonstrating that an industry can, through coordination, make a difference and do so without forcing American taxpayers to pay the bill. I look forward to regular progress reports in the coming months. As we learn more, we will look for additional measures to reach more borrowers and prevent as many avoidable foreclosures as possible.

The Administration has also, through FHA Secure, expanded affordable mortgage options. Working with Congress, we have increased funding for mortgage counselors who assist struggling homeowners. We have also temporarily eliminated taxes on forgiven mortgage debt. But more action is needed in the housing sector, action just as urgent as a broader short-term economic boost.

Congress needs to pass legislation to modernize the FHA, to increase availability of affordable FHA mortgages. It needs to strengthen regulatory oversight of Fannie Mae and Freddie Mac to ensure they will continue to fulfill their affordable mortgage financing mission. And as part of this reform, to temporarily raise the loan limit on conforming mortgages for securitization. Congress should also allow states to issue tax-exempt bonds to raise funds for innovative refinancing programs.

I am confident that Congress and the Administration share a sense of urgency and will work together to address the economy's short-term needs. I look forward to engaging intensely with the Congress to get money into our economy quickly.

The U.S. economy is resilient and diverse. It has been remarkably robust in recent years, and will be so again. Yet, neither today nor tomorrow should our economic health be a partisan issue. It is a shared, fundamental responsibility of all leaders who want continued opportunity and prosperity for all America **ns**.