



PRESS ROOM

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TREASURY SECRETARY ROBERT E. RUBIN REMARKS TO SMALL BUSINESS ASSOCIATION LUNCHEON

It is a pleasure to speak with all of you today, and let me welcome you to Washington. Before I begin, let me congratulate all the small business people we honor today. Your entrepreneurship, energy and hard work exemplify what is best about our nation's small businesses, which are so central to our economy.

Today, I would like to discuss the state of our economy for a moment and then discuss the steps we need to take to foster a strong economy for the future.

The United States continues to enjoy what many consider to be the best economic conditions in recent memory -- the longest peacetime economic expansion in our history, a very high rate of job creation, the lowest unemployment rate in decades, and real increases in income across all income strata. The most likely scenario for the U.S. economy remains solid growth and low inflation, subject to the usual ups and downs. The strength of our domestic economy has helped insulate us from the international financial crisis, now showing some signs of abating. There are, however, some sectors that were hard hit by the crisis, either from increased imports and decreased exports, and there is an overall risk to our economy from the imbalance in a global economy where every major area of the global economy, other than the U.S. is having slow or even negative growth.

Many factors have contributed to our economic success -- including the private sector's restoration of competitiveness in a broad array of industries. And in no small degree, small businesses have been critical to our current strong economic conditions. Small businesses account for more than half of the nation's GDP and employ more than 50 percent of the private workforce. But in addition to the role of the private sector, the key and indispensable factor in our strong economy has been a sound economic strategy grounded in investing in people for long term productivity, opening markets abroad and dealing with financial instability abroad, and especially re-establishing and maintaining fiscal responsibility, beginning with the Deficit Reduction Act of 1993.

Despite this progress, I believe that, in addition to the private sector maintaining its competitiveness, there are three basic public policy challenges we must meet to continue our present economic success in the years and decades ahead. All of

these challenges involve difficult choices, and the hard reality is that successful economic decisions often involve tradeoffs and a recognition that what is good for the great preponderance of workers, farmers and businesses, and the economy as a whole, and in many instances may have a negative or dislocating impact on some. When I look back over the last six and a half years that I have been in government, it seems to me that the choices that have been the right one for our economy and society have almost always been difficult politically, and have generally involved tough tradeoffs. It seems to me that we need to remember that in the years ahead as we will inevitably continue to face difficult decisions. The key is not to back away from the difficult path because of the tradeoffs as some have advocated through impediments to technological advance or closing our trading markets, but rather have programs that help those who are dislocated successfully re-enter the economy as rapidly as is practical.

Now, to go to the three public policy challenges:

The first challenge is to continue to promote fiscal discipline. It is worth stopping for a moment to see how far we have come on fiscal discipline, because we do tend to forget. Between 1980 and 1992, the Federal debt had quadrupled, and in 1992 the deficit was \$290 billion and projected to continue growing. Now, as a result of the difficult choices made, beginning in 1993, we have moved from an era of budget deficits, to budget surpluses last year, this year, and projected for a long time to come.

The surpluses, the first since 1968, and that was for just one year, present a truly historic opportunity to strengthen our economy for the future. The President has proposed using these surpluses predominantly to promote national savings through paying down the federal debt, in a program associated with strengthening Social Security and Medicare, and through a tax incentive to promote savings. An alternative view would use far more of the surplus for large tax cuts. In essence, the debate is really over greater emphasis on increasing national savings while strengthening Social Security and Medicare, versus a large tax cut.

Using the surplus for tax cuts or spending may be easier politically, but in our view using the surpluses predominantly to promote fiscal responsibility and national savings is the right path for our future.

Second, we must continue to invest in education and training and similar productivity enhancing areas, including investment in programs to equip the residents of the inner cities and other economically distressed areas for a real opportunity to join the economic mainstream. Providing this opportunity is not simply a social issue or a moral issue, but an economic issue of great personal importance to each of us, no matter what our income may be or where we may reside. Just think of the difference it would make in terms of higher productivity and reduced social costs if the residents of these areas had greatly increased opportunity and success in joining the economic mainstream.

A key aspect of promoting growth in economically distressed areas is to help foster

the creation of small businesses in those areas. At Treasury, we have been focused on this issue by working to expand access to capital through programs like our Community Development Financial Institutions Fund and the Community Reinvestment Act. At the same time, through the just developed BusinessLINC initiative, we are working to expand small business access to the networks of information and resources that larger businesses can offer. Launched last year by the Vice President, BusinessLINC, which stands for business learning information, networking and collaboration, encourages large businesses to develop mutually beneficial relationships with smaller businesses, especially in economically distressed areas. Larger firms can reach new markets, and strengthen their supplier base. Smaller firms receive expert advice, improve market access, strategic planning guidance, and management development. In essence, this initiative expands on the idea of business mentoring.

The President has also launched a "New Markets" Initiative to spur up to \$15 billion in new equity investment in businesses in low and moderate income communities, including a new tax credit worth 25 percent of the amount invested in local development funds and new SBA centered sources of capital. We look forward to working with the Congress to pass this legislation, which already has bi-partisan support.

The third and final challenge we must meet is to continue to provide leadership in the global economy. A successful strategy here includes three components: promoting growth and reform in the developing world and countries transitioning from communism; dealing with the problems of financial instability and crisis when they occur, and in the long term, strengthening the architecture of the international financial system; and finally, opening markets abroad and keeping our markets at home open. Again, all of these areas are the focus of great debate, and require difficult choices, yet they all are enormously important to our economic well-being. For example, foreign aid, including our contribution to the World Bank, which some view as charity, is in fact, a very good investment in our economic well-being. This helps promote growth and reform in developing countries, which twenty years ago, were largely irrelevant to us economically and now absorb over 40 percent of our exports. Yet the effort to achieve funding for bi-lateral foreign aid and for the World Bank and its sister multi-international development banks, is always very difficult. And, of course, the struggles around opening markets abroad and maintaining open markets here are also always very difficult. I would like to elaborate on that point for a moment.

There is no doubt in my mind that open markets here and abroad have contributed greatly to profitability, job growth, and increased standards of living during the healthy economy of the past 6-1/2 years. Small businesses across the country have benefitted enormously as a result of more open markets abroad and an increasing number of small businesses, including many of you, sell products abroad. And maintaining our open markets at home, through lower prices for both consumers and producers, and increased competitiveness promoting greater productivity, have contributed to lower inflation and lower interest rates and hence, again, more job growth, higher standards of living, and greater profitability. It is worth noting that Continental Europe, with its less open markets, has persistent 10-

12 percent unemployment and virtually no new job creation, while the United States, with its relatively open markets, has 4.3 percent unemployment and six years of vigorous job creation.

Throughout my tenure as Treasury Secretary, I have been very concerned by the ongoing pressures to reduce access to our markets, pressures that have only increased as a consequence of our large and growing trade deficit, which is largely the result of the economic performance of the rest of the world being weak relative to ours.

In addition to reducing the benefits of open markets I have just cited, restricting access to our markets would create an even greater than usual risk to our exporters. It would hamper the recovery in crisis countries that is so important to our exporters and to our own economic well being, and it could strengthen the voices of protectionism in industrial and developing countries around the world, which in turn could severely affect our exports and our economy as a whole.

The adverse effects of imports are concentrated, and the voices of those adversely affected are strong. The benefits of trade openness are more widely dispersed -- indeed, those who benefit are often unaware that they are doing so -- and the result is fewer, fainter voices for open markets. All of us need to work together to increase the awareness that open markets here and opening markets abroad are critical to business profitability, job growth and increased standards of living. And at the same time, we need effective programs to help those who are dislocated by trade to successfully re-enter the economy.

To conclude, I think the United States is very well positioned for success in the global economy of the 21st century. And I have no doubt that small businesses, which play such a critical role in our economy, will continue to do so. However, to realize our potential, we must -- in both the public and private sectors -- meet the challenges that the greatly changed global economy poses. That will require making tough decisions, in both the private and the public sectors. If we continue making those decisions, the decades ahead can be very good for our economy and our country. Thank you very much.