Remarks on Current Issues

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Thank you. I am delighted to be here today.

I appreciate your inviting me here today and I particularly want to thank Todd Gardenhire for encouraging me to come to Chattanooga for this event. I know Todd through our respective work with the Pension Benefit Guaranty Corporation – the PBGC. The PBGC is a government corporation that insures defined benefit pension plans. The PBGC's three-member Board of Directors is led by the Secretary of Labor who chairs the Board; the other two members are the Secretary of Commerce and Secretary of the Treasury. Each of the members appoints a Board Representative who shares some Board responsibilities with the member. I am the Commerce Board Representative to the PBGC and Todd chairs the Advisory Committee to the PBGC which focuses primarily on the PBGC's investment policy and strategy. That is not an insignificant job given the fact that PBGC has an investment portfolio of over $50 billion. Todd is at the helm of the Committee at a very critical time and we are very fortunate to have him there. Earlier this year, the PBGC Board adopted a new investment policy statement and the PBGC is currently developing its strategy for implementing the new policy. We are all relying on the Advisory Committee to provide sound advice and council to the PBGC and the Board on the investment implementation strategy.

While I spend part of my time working on PBGC issues, I have a much broader portfolio of issues to oversee. As Under Secretary of Commerce for Economic Affairs, and Administrator of the Economics and Statistics Administration, I wear several hats. Among my duties, I serve as senior economic advisor to Secretary Gutierrez and I oversee two major Federal statistical agencies – the Census Bureau and the Bureau of Economic Analysis.

The Census Bureau collects vast amounts of income, expenditure, and investment data from households, firms, and governments, as well as extensive demographic data. No doubt you are familiar with the Constitutionally-mandated decennial Census that counts all residents in the US every ten years, and you may also be aware that the Census Bureau conducts a Census of all businesses every five years, in addition to its many monthly, quarterly, and annual surveys of individuals and businesses that are reported on regularly in the financial press. Right now, Census is in the middle of the 'ramp-up' for the 2010 decennial census, going from 14 offices nationwide to close to 500 and from about 15,000 employees to over half a million at the peak. As you can imagine, this is an extraordinarily complex undertaking and is not a job for the faint-hearted. We have had glitches along the way – you may have heard about some of them – but I am satisfied that these issues have been resolved and we are on our way to a successful census.

Another data series that Census has recently begun producing is the American Community Survey, the ACS. You likely remember that the decennial census used to use two forms – aptly called the short form and the long form. This upcoming decennial census will use only the short form. The long form has been discontinued, but the ACS has been created to collect the same type of information but on a much more timely basis – annually rather than every ten years. The ACS provides estimates of demographic, housing, social, and economic characteristics every year for all states, as well as for all cities, counties, metropolitan areas, and population groups of 65,000 people or more.

The other agency I oversee, the Bureau of Economic Analysis (BEA), uses data from Census, other government agencies (such as the Bureau of Labor Statistics and the IRS), SEC filings, and its own data on foreign direct investment and international trade in services, among other sources, to produce the National Income and Product Accounts (NIPAs), including Gross Domestic Product (GDP).

Having told you about the statistical agencies, I thought you would be interested in some of the data that you can get from the new ACS about the Chattanooga metropolitan statistical area. If you go to the Census web site and look for the American Factfinder, you will find that, in 2007, the Chattanooga area characteristics were similar to the country's in many ways, but there are areas where there are some differences; for example,

- 77.6% of the population in the Chattanooga area lived in the same house as a year ago versus 84% for the U. S.
- 95.1% were born in the U. S. versus 86.1% for the country.
- Your mean travel time to work was 17.7 minutes, versus 25.3 minutes for the country (and 29.2 minutes for the Washington, DC area where I live.)
- 72.2% of your total housing units were built before 1980, compared to 59.8% for the US.
- Interestingly, your female/male population is 52.6% and 47.4%, compared to a much closer 50.7% and 49.3% for the country.

Those are just some of the pieces of data that come from Census and BEA. Much more is available on their web sites, and I urge you to explore them.

But I want to turn, at this point, to a topic on everyone's mind and talk a little about what is happening in the economy and what the government has been doing about it. I am not going to get into what went wrong – what caused, enabled or facilitated the problems. Suffice it to say that – from an economist's perspective – the incentives were wrong in many ways. Surely they were not designed to have these effects; however, we are now seeing their unintended consequences.

The result has been the current gridlock in the credit market – and concern that the financial market problems are spilling over into the rest of the economy.

Visualize a healthy man whose blood is running through his veins when suddenly his arteries are clogged by a piece of plaque – without an angioplasty, the blood flow stops. That is where our economy was over the last few months. The economy was growing despite the housing market – but the financial problems and lack of trust clogged the economic arteries.

As a result, the credit markets are in economic gridlock. Without access to credit – for consumers and for businesses – our economy cannot function effectively. Hence, we needed some serious intervention – an economic angioplasty to unclog those arteries.

I am sure you all know about the Emergency Economic Stabilization Act (EESA) that the Congress enacted and the President signed last month. The overriding purpose of that Act – and the various other measures that have been taken by the Administration, including the Fed's and the Treasury's intervention in Bear Stearns, AIG, Fannie and Freddie, the creation of the $700 billion TARP financial rescue plan, the extension of deposit insurance coverage by the FDIC and the various other actions that have been taken – have not been to provide a 'bail-out' for Wall Street. The purpose of these actions is to keep Wall Street's problems from spilling over onto Main Street. I will get back to the specific actions the government has taken in a minute, but first I want to speak briefly of 'trust.'

Everybody here understands that business runs on trust. Certainly, we follow Ronald Reagan's "trust but verify" motto when we sign formal contracts. But I am sure you know that business relationships depend on more than just what is written on a piece of paper. You all have partners, suppliers, employers, customers who are reliable and trustworthy. That means that they will do what they promise—and even go the extra mile when you need help. They know that you will do the same for them. And that network of trust allows you to work more efficiently and sometimes even take chances to expand your business and your profits. Without that network of trust, it would be a lot harder to conduct business—even with all the lawyers in the world.

The financial business is not that different from the rest of the business world in that respect. Financial businesses also depend on a network of trust among competitors, suppliers, and customers. That trust allows banks to borrow from each other for very short periods of time—sometimes overnight. When the markets operate normally, the banks can make such loans very quickly because they can trust that the borrowing bank will still be around the next day.

What happens when that trust disappears? That is exactly what we are watching now. Banks are no longer willing to lend to one another because they do not know whether the borrower will be around the next day. The trust is gone. The result is difficulty in getting loans for even very creditworthy borrowers. The reason trust has been lost was triggered by so-called 'toxic' subprime mortgage-backed securities. These are difficult to put a value on, and it is hard for banks to prove that they have not over-invested in these money-losing securities. Even worse, it is hard for banks to show that they have not over-lent to other banks that invested in subprime bonds, even if they have not invested in any of the bonds themselves. That is the key to why trust was lost. And the key to returning trust is to enable banks to show each other that, despite concerns about the toxic assets on their books, they have sufficient capital and earnings to remain a viable business.

Let me briefly outline the recent measures that the government is taking to shore up banks across the country and get credit flowing.

- The government will use up to $250 of the $700 billion financial rescue plan for a voluntary program to inject capital into banks by purchasing preferred equity shares using authority granted in the rescue plan.
    - The new capital will help banks continue making loans.

  - It is a short-term measure designed to encourage banks to buy shares back when the markets stabilize.
  - While most U. S. banks are strong and well-capitalized, these actions will bolster public confidence.

- Effective immediately, the FDIC will temporarily guarantee most new loans to insured banks.
  - This will permit money to flow more freely between banks, making it easier for Americans to borrow for cars, homes and business expansion.

- The FDIC will immediately and temporarily expand government insurance to cover all non-interest bearing transaction accounts.
  - These accounts are used primarily by small businesses to cover day-to-day operations.
- The Federal Reserve will soon finalize work on a new program to serve as a buyer of last resort for commercial paper.
  - By unfreezing the market for commercial paper, the Federal Reserve will help American businesses meet payroll, purchase inventory, and invest to create jobs.

The goal of all of these actions is to ensure that a creditworthy family that wants to borrow money for a home mortgage can do so, or a business that wants to expand can obtain working capital—and at the best rates possible. That is particularly important to you as homebuilders. I do not have to tell you about the weakness in prices, sales, and building in the housing market.

That is why I said that Main Street – and by that I mean all of us – is who is being helped by the government actions. If trust does not return to Wall Street, all of us will find it harder (and more expensive) to borrow money. That includes home buyers around the country. That includes businesses of all types. That is why we all have a stake in the success of the actions that have been taken.

The government's actions provide a systematic approach that is the most effective way to stabilize the banking system.

- It is not intended to take over the free market, but to preserve it;
- Each of the new programs contains safeguards to protect taxpayers;
- The government's role will be limited and temporary;
- The strategy is broad, flexible and aimed at the root cause of our financial problems; and
- We are working in tandem with other countries around the world.

The real winners are all of us on Main Street – families that need to borrow to buy a house, a car, or to pay for college, businesses that want to borrow to expand and create new jobs, and local governments that need to issue bonds to pay for new schools and roads. If these government programs are a "bail-out," then you and I are the ones being "bailed out."

Thank you. I would be happy to answer a few questions.