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**ECONOMICS
AND
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ADMINISTRATION**

**Office of the
Under Secretary**

Remarks of Under Secretary Kathleen B. Cooper
Luncheon speech to the Greater Des Moines Partnership
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As prepared for delivery

Economic Security and Trade

Thanks to the Greater Des Moines Partnership and the Department of Commerce's Commercial Service for bringing us here today. Together, they are the Iowa Export Assistance Center -- a great resource for businesses of all sizes to receive help with international trade issues.

Thank you Congressman Greg Ganske for your leadership in Congress and hospitality here today.

I have been in the job of Under Secretary for Economic Affairs for about a year now. I advise Secretary Don Evans on economic conditions and policy. I also manage the government agencies that produce the majority of economic indicators -- from GDP, to housing starts, to the international trade numbers.

Those indicators tell a story about our economy and I relate those to Secretary Evans. But I will also tell him the conditions for growth and trade I've observed here in Des Moines.

Iowa is a crossroads for domestic materials. We are in a strategic site for the distribution of products to the east and west. Iowa, of course, is known for agriculture production. You now host a growing number of service industries drawn to an educated workforce.

Congressman Ganske mentioned to me that one Iowa farm family grows enough food to feed 279 people, a quarter of whom live overseas. The importance of trade to your community is clear.

This morning, he and I toured Kemin Foods where 50 jobs are directly attributable to exporting.

In fact, I am here today to announce that Kemin Foods is the recipient of the U.S. Department of Commerce "Export Achievement Award" given to businesses on the cutting edge of economic engagement around the world.

Kemin Foods launched the Lutein product in 1995 and began exporting almost immediately. With the guidance of the Department of Commerce Export Assistance Center right here in Des Moines, they are selling Lutein, a dietary supplement extracted from marigolds, that promotes healthy vision, in Japan and Australia, Switzerland, U.K., and Italy. Over fifty percent of their sales are exported.

If Congressman Ganske would help me do the honors, I would like Kemin Foods President Rod Ausich to come forward.

On behalf of Secretary Donald L. Evans and the Des Moines Export Assistance Center, I would like to present Kemin Foods with the United States Department of Commerce "Export Achievement Award" for its successful export program and its accomplishments in the global marketplace.

Congratulations.

I want to talk to you today about the President's vision for economic security—

- U.S. economic strength
- U.S. role in the global economy
- Importance of trade.

U.S. Economy

Economic security starts at home. In this respect, President had an effective year and a half. His leadership/initiatives have helped us recover from September 11 and recession. Strengthening the U.S. economy and creating jobs are an Administration priority on par with defeating terrorism.

When I brief Secretary Evans on the economy and the economic indicators produced in my directorate, I explain that we see valid reasons for optimism.

- Real GDP rose 5.8% in the first quarter mostly on less destocking of inventories.
- Good news, but we want to see on-going sustainable growth.
- Consumer confidence is again at non-recession levels, but took a step back recently.

We are hopeful but cautious. Secretary Evans speaks to business leaders daily; reports less upbeat. For that reason, labor markets are less than robust.

Consumer spending has proven to be a major stabilizing force. but by this point, households adjusted to new withholding rates, household debt and energy prices are on the rise. If job picture fails to brighten, confidence could be dampened, slowing consumer spending in the months ahead. Rising energy prices add to concerns about consumer spending.

The Administration got off to the right start last year when, on June 7, President Bush signed the tax cut bill.

Congressman Ganske's leadership and support was important.

Doubtless without the tax cut the recession would have been deeper and longer. The tax cut injected an estimated \$57 billion into the economy in the second half of 2001 and \$69 billion in 2002. It boosted GDP growth 1.2 points in the second half of 2001 and 0.5 point in 2002.

At passage, conventional wisdom was that Americans would not respond to the rebates. I am convinced those checks helped soften the recession.

Those checks, plus the increased take home pay from reduced withholding, contributed to solid consumer spending in fourth quarter of six percent.

Clearly, other factors acted in the fourth quarter to put money in American wallets.

- Lower energy costs – at the time – were as much of a boost to disposable income as tax cuts.
- Monetary policy gave consumers a boost via lower financing costs.
- \$55 billion in emergency supplemental federal funding to respond to terrorist attacks.

In sum, the Bush tax cut was good policy on its merits and fortuitous in its timing, but work remains.

Our first priority in helping the global economy had to be to get our own house in order.

Global Economy

As you may know, President Bush has an integrated view of economics and foreign policy. He believes that America is the leader of the free world and the leader of free markets.

Recent worldwide recession was quite instructive. Usually one region of the world moves into recession, followed several quarters later by another region and then by another in what we term “rolling recessions”. This time the cycle has seemed quite different. Industrialized countries each reacted about the same way to the drop in business investment and in demand for information technology equipment and services. The shock was distributed very widely within IT and capital spending generally, resulting in quick policy reaction and less severe effects on other industries. Now foreign economies are rebounding along with the U.S., perhaps a quarter or so behind.

The President has done an outstanding job forging a worldwide alliance against terrorism, in very trying times and circumstances. In truth, forging a similar alliance for free markets is a lot harder, but we are confident of success.

In Monterrey, Mexico just two months ago, the President called for a “new compact for development.” He said that the U.S. and other “developed nations have a duty not only to share our wealth, but also to encourage factors that produce wealth: economic freedom, political liberty, the rule of law, and human rights.”

Aid will be tied to reform. The U.S., the IMF, and the development banks will first help those nations committed to helping their own people.

The U.S., indeed the world, can do a better job in helping people and governments raise living standards, increase opportunities, and realize human potential.

For the poorest nations of the world to boost their economies effectively, they must foster predictable conditions for business – stable banking and currency systems, enforceable contracts, a commitment to eliminate corruption, transparency in markets and governments, and the rule of law. Those who export want to deal with countries where the “infrastructure” for business exists.

Aid will be linked to political, legal, and economic reforms. The President has proposed a 50 percent increase in development assistance over the next three years. This new funding is referred to as the “Millennium Challenge Account.” I have the privilege of participating in the Administration’s working group to determine the criteria that will assist in selecting the countries to be first in line for the funds.

Trade

Let me turn now to trade, since trade is more effective than aid in so many ways.

Also in Monterrey the President said, “To be serious about fighting poverty, we must be serious about expanding trade.”

In fact, while developing countries receive about \$50 billion annually in aid from the developed countries, they receive direct investments totaling four times that amount, some \$200 billion per year. These investments are far more important in enabling developing countries to establish export industries—allowing them to export something like \$1.3 trillion last year.

That is why the Bush Administration has made Trade Promotion Authority a priority. President Bush’s ability to negotiate trade pacts will enlarge the sphere in which market economies are allowed to operate for the benefit of people everywhere.

Hopefully, we will see a Senate vote on TPA soon.

But our trade agenda is broader than TPA.

Any discussion of trade these days, begs the question about the steel policy announced in March. I will get to that shortly.

The Administration, led by the U.S. Trade Representative and the Commerce Department, will find ways for trade to contribute to economic strengthening in the medium to long term.

We will undertake new global trade talks as called for in the Doha negotiations last November and push ahead with negotiations to form the world's largest open market—the Free Trade Area of the Americas. As China's and Taiwan's largest trade and investment partner, we will encourage each economy to integrate at home and abroad, now that they have acceded to the WTO.

In our new and evolving relationship with Russia, we will help her prepare to join the WTO and achieve market economy status.

Expanded trade – through the Free Trade Area of the Americas and other initiatives in Central and South America -- has the potential to strengthen our economy and our hemispheric neighbors. The regional distribution of U.S. trade has shifted. Our NAFTA partners accounted for a record 33 percent of our total trade in goods last year, up from 26 percent a decade ago.

Prior to NAFTA, Mexico operated in a much different economic climate than the U.S. and Canada. After the financial crisis of 1994, however, and as lower NAFTA tariffs have begun to take hold, Mexico is converging to the common U.S. and Canada business cycle.

Finally, we will defend Americans from unfair and illegal trade practices.

In March, the President decided that free and fair trade means a level playing field for U.S. steel producers and workers in the global marketplace.

He decided to implement temporary safeguard measures on key steel products to provide relief to those parts of the U.S. steel industry that have been most damaged by import surges. The steel decision will give the U.S. industry the breathing space it needs to restructure and adjust.

Weighing on his decision was the impact on manufacturers of products ranging from aerosol cans, to cars, to tractors. The President has taken care to craft this relief to minimize the impact on steel consumers and the U.S. economy.

Keep in mind that 30 percent of the firms in the integrated industry are in bankruptcy and more very nearly there. Also remember that each active worker supports around three retirees.

Now I could go through with you the temporary nature of the tariffs or the different tariff levels for the 16 different product categories covered. But suffice it to say, this relief is not all that was asked for, but it appears to be sufficient to allow the companies to continue supporting their retirees as they restructure to survive in an increasingly competitive global industry.

I can tell you there was careful consideration over this issue. Whether you agree or not, you can be assured that this was a thoughtful, indeed painstaking, process where all sides were heard.

As we have discussed here today, the President considers the U.S. economy, our role in global economic growth and development, and trade as interdependent issues. These issues are inherent in our economic security and integral to winning the war on terrorism.

The President has asked for our patience and resolve to win what will likely be a long war. But a successful campaign against terror also requires the resources of a strong U.S. and global economy for years to come.

I am confident he is putting the right policies in place to do just that:

- The President's tax cut put money in American pockets;
- The stimulus bill signed in March will help those who have lost jobs make ends meet and help business invest again;
- The energy plan will help increase and diversify our sources of supply;
- The President will enhance worldwide trade and enforce trade laws;
- And he is insisting that America share our good fortune with others around the world -- reaching out to nations that "govern justly, invest in their people, and encourage economic freedom."

Countries around the world, beginning with the United States, considering their own circumstances and in their own way, should contribute and be encouraged to contribute to global economic growth and security.

Thank you.

Kathleen B. Cooper serves as the principal economic adviser to Secretary Donald L. Evans and manages the organizations that gather, calculate, and disseminate much of the U.S. demographic, social, and economic data – the Economics and Statistics Administration, the Bureau of Economic Analysis, and the Census Bureau.