Remarks of Under Secretary Kathleen B. Cooper to the Association of Energy Economists
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As prepared for delivery.

It's nice to be back in the energy world tonight. As John mentioned, I was with a little energy outfit called Exxon, later ExxonMobil, for about 10 years. Early in 2001, I received a call from the White House to discuss a position very different from my ExxonMobil job.

Most of you understand my issues and responsibilities at ExxonMobil – similar in many ways to your portfolio at your organization, I am sure. I am still learning more about the sheer breadth of my portfolio at the Commerce Department. But so far, I have found it to be a broad range of issues that includes, but certainly isn't limited to:

- Advising Secretary Evans on the economic situation and policy,
- Making more timely the economic statistics the Department of Commerce produces,
- Determining how we should measure the information economy and the services sector,
- There is the Census – to adjust or not to adjust, that is only <u>one</u> of the questions. They need a new building and are developing more timely data on the characteristics of the American family,
- And then there is the federal budget process.

It would be enough to make your head spin if it weren't so interesting, exciting, and down right fun.

In my new job, the definition of long term and short term has changed. You have to admit, energy economists focus <u>really</u> long term. A 10-year outlook was a near-term forecast in the energy world. Now, I consider what Secretary Evans should say to the press about consumer confidence numbers in 10 minutes. It was long-term planning before Thanksgiving, when we thought Congress would consider Trade Promotion Authority today.

ExxonMobil has rich resources. I had a staff of 10 to study and analyze the ebbs and flows of the energy industry and the economy. At Commerce, I have the resources of 7000 individuals, with scores of Ph.D.s, years of experience, and practical and institutional knowledge. So a new and exciting challenge, one by which I will judge my success, is determining how to best use and rely on this vast resource to deal with a broad range of issues and to help shape U.S. economic policy.

It is an honor every day to come to work and to serve this President and the nation at this historic time. Who could have imagined when the phone rang months ago with that call from the White House that our country would be attacked, that one could see the smoke from the Pentagon that morning from my office window. . ?

Rightly, we hear a great deal of talk these days about security. No doubt we have all been frustrated in the past three months waiting in line at airport checkpoints. We have all been faced with other security-related inconveniences as a result of September 11. More acute are the threats to our national, economic, and energy security. All are so closely interrelated that our policy choices and our strategy affecting one component must and will affect the others.

We are fortunate, at this time, to have leaders who understand energy policy, who came of age in the oil fields of Texas, who have lived through and guided their businesses through good times and bad. Rest assured, President Bush and Secretary Evans understand the energy industry and its affect on national security, economic security, and American life.

National security

Even before September 11, our national security and our economic security were linked. Symbolically and practically, the near simultaneous attacks to our financial and defense centers demonstrate that there can be no strong American world leadership without strong leadership on the economic stage. America is the leader of the free world and the leader of free markets.

The nexus between economic security and national security is well founded. Today, just as in the century past, economic ideas went hand in hand with foreign policy goals -- World War II, the Marshall Plan, the Cold War.

Sixty years ago, we worried about conflicts between France, Germany, and the U.K. Now, while neighborly rivalries exist, it is unlikely that war will erupt among these nations whose economies are linked so extensively.

Today, we worry about conflicts in the rugged geography of Central and South Asia and the Middle East, between people who taught the ancient world a great deal about trade. But where economies are now held hostage to politics. After all, this is the land of bazaars and the Silk Road. And it’s a land of oil. We obviously depend on production from this region. But the Administration is looking to alternate areas and alternate fuels.

Canada, America’s largest energy trading partner, is opening new sources of natural gas that could further boost power supplies in the Northeast.

President Bush is encouraging infrastructure improvements, openness, and free markets in West Africa, a fast-growing source of oil and gas, but a region of vast socioeconomic challenges.

And the Caspian region could double its output with cooperation from neighboring countries and multinational, especially U.S. multinationals.

Economic security

National security battles are seen on TV. The economic battles are more subtle, but we feel them. Airport lines at security checkpoints are one small measure of a false sense of invulnerability lost. This cost is counted in fewer travelers and the dollars they carry with them.

In much the same way President Bush has approached the military side of the battle, he developed a strategy and he is leading the charge on the economic front. He understands these are tough times and more will follow.

The President immediately called for $40 billion in emergency funding to help the victims, for search and rescue efforts, for the investigation, for airport security and sky marshals, and as a down payment on his commitment to restore the Pentagon and rebuild New York.

The President championed a $15 billion package for the airline industry, which because of government action was shut down temporarily and sidelined for a week. And before Thanksgiving, President Bush signed airport security legislation.

He has put forward a backstop proposal to make certain that insurance (with terrorist risk coverage) will be available for business activities and operations, so that sensible projects will go forward, airplanes will fly, companies can afford to operate, and the business of America will continue.

Government spending -- more than $55 billion since September 11 -- is not without economic benefits as well. And the President has called for an additional $60 - $75 billion in stimulus that would:

- Reduce taxes for low- and moderate-income households beyond relief already approved by Congress,
- Accelerate the tax cuts passed in the spring, giving consumers more to spend and invest, and businesses and entrepreneurs more resources to help them retain or create more jobs.
- Allow business to partially expense capital expenditures, allowing them to make purchases they might not otherwise have been able to afford,
- Promote more sound business tax policy by eliminating the corporate alternative minimum tax,
- Extend unemployment benefits by 13 weeks for Americans who lost their jobs as a direct result of the terrorist attacks,
- Make $11 billion available to states to help low-income workers obtain health insurance,

- Provide $3 billion in special National Emergency Grants to help displaced workers maintain health coverage, supplement their income and receive job training,
- Encourage affected workers to take advantage of more than $6 billion in existing federal job search, training and placement programs.

The American people -- consumers, entrepreneurs, workers, and employers -- are on the front lines of the economic battle. The President understands this and wants to know more. Upon his request, Commerce Secretary Evans and the President's economic team have begun to convene a series of economic roundtables across America. The roundtables are comprised of industry leaders, workers, and economists and provide a chance to listen and learn. The first was in Chicago with retailers. Others will be dotted across the country -- highlighting industries from high tech to manufacturing.

The need for a stimulus bill became even more clear last week when the National Bureau of Economic Research reported that we are officially in a recession. The announcement came as a surprise to no one.

Manufacturing peaked more than a year ago, at which time I worked for ExxonMobil. Sensing the weakness in our own chemicals business, I began comparing notes with colleagues --chief economists in the chemical industry. The consensus was that this was the worst December they had seen since the early 80s. I heard the same story from colleagues in other industries. The anecdotal evidence then demonstrated that weakness was widespread. As my role then was advising ExxonMobil management, I made it clear that 2001 would be a tough year.

Historically, industrial production peaks two months before the peak in the overall economy. This it production peaked earlier -- in June 2000 -- and has declined seven percent over the last year so.

But the truth is, before September 11 the confident American consumer buoyed this economy for almost a year. Even as we sensed the beginning of a slowdown in late 2000 and into 2001, American consumers refused to yield, providing the strong underpinning to the U.S. economy. Despite falling equity market values and rising unemployment, consumers kept buying. Automobile sales and housing sales were resilient. However, business managers reacted with caution. As they began to see future sales in less than glowing terms, they cut back capital spending -- first on a general array of equipment and then on high tech materials.

In the past, business investment and the investment component of household spending have tended to show fairly similar patterns of growth over the course of the business cycle.

In most postwar business cycles, the turns in household spending have led business investment. That is, peaks and troughs in household investment spending have taken place before those in business investment. Consumers have tended to be more sensitive to credit conditions than business managers. As a result, households traditionally have responded earlier than businesses to tightening or easing credit conditions near business cycle peaks and troughs. These changing conditions drive Federal Reserve policies.

This cycle is different. In the current downturn business investment weakened much sooner and more significantly than one would have expected, given the lack of credit pressures and the favorable trend in household spending. Just as business investment helped drive the previous expansion, business investment has been a prime mover in the current downturn. It has contributed most to the decline in total GDP.

Low energy prices are keeping inflation down and putting money in Americans' pockets -- good things. -- Although maybe not for everyone in this room.

Decisions about how we secure the economy depend -- to a great extent -- on information that reflects and reports the challenges we face. We need the information that will allow us to develop strategies and fix problems.

One of my surprises in my seven months on the job is just how much information the Department of Commerce's two statistical agencies -- the Census Bureau and the Bureau of Economic Analysis -- produce. I simply had never before tallied their many products -- GDP, housing starts, retail sales, international trade, construction, inventories, the list goes on. These are major indicators needed to diagnose the health and strength of the U.S. economy.

Changes in the way businesses operate have caused us to reevaluate the information we collect and how we collect it. We are committed to improving our data. We are committed to keeping pace with rapid changes in the world around us by using technology to increase accuracy, improve timeliness, and reduce burdens on data suppliers. Moreover, Secretary Evans has taken a personal interest in our need to better measure the new economy and the services sector. Those are two areas we can do a better job of calibrating and obviously two areas that drive our economy.

The data we release, step by step, form a map guiding policy makers, indeed all Americans, through the uncharted economic world in which we find ourselves after September 11. Here is what we have learned in the past two weeks or so from Commerce Department releases – all measuring the weeks and the first full month after the attack.

First, single-family houses sold during October released last week demonstrated again that the housing market is an unusually stable part of the economy owing to the easing of credit throughout the year. The effect of policy -- monetary policy -- shapes and is shaped by such indicators.

Second, while durable goods took a hit in September, the October data that we just released shows considerable bounceback. Undeniably, the attacks had a large effect. But we are seeing notable resilience due to several factors: the zero percent financing in the automotive sector, postponed purchases from September, reduced inventories, and the sense that consumers do want to live their lives even understanding the changed circumstances. These data show decision makers where the economy is weak and where help is needed.

Third, international trade data, released November 20, demonstrated the short-run influence of September 11 and the longer-run effect of global economic weakness. For the first time since 1974, the worlds' three largest economies -- the U.S., Germany, and Japan -- are all declining at the same time. This widespread slowdown has resulted in significant declines in U.S. exports and imports over the last 12 months. Moreover, the information highlights the importance of this afternoon's passage of Trade Promotion Authority.

Energy security

In May of this year, Vice President Cheney presented to President Bush a plan to improve our energy security -- as we understood it before September 11.

The National Energy Policy has three principles:

- Achieving greater energy diversity,
- Increasing domestic production along with enhancing efficiency and conservation,
- Modernizing energy infrastructure.

You will recall that this intense effort was undertaken in reaction to $30 oil and $5/mct natural gas prices and to rolling blackouts in California

Since September 11, new legislative issues have taken center stage. The weakness in the world economy has slowed the growth of current and future demand for energy. But I would argue that bolstering our energy security is an important legislative priority needed to protect both our long-term national and economic security.

The House passed the energy bill this summer. But in mid October, the Chairman of the Senate Energy Committee stopped working on the national energy bill. Just yesterday, Chairman Jeff Bingaman and Majority Leader Tom Daschle proposed an energy bill and suggested it may be considered early next year.

The possibility of opening a fraction of the Arctic National Wildlife Refuge -- territory the size of Dulles airport -- to exploration has garnered a substantial amount of press attention and Capitol Hill controversy. But ANWR is just one of more than 100 initiatives in the President's plan including:

- Funding for renewable energy and energy efficiency research,
- Tax credits to promote fuel-efficient vehicles and alternative fuels,

- Improvements in pipeline safety,
- Ensuring that federal agencies set up mechanisms to coordinate permitting activity in regions,
- Infrastructure improvements.

We have a strategy to combat terrorism. We have taken steps to shore up the economy and I hope Congress will do more by agreeing on a stimulus bill. But unfortunately, the energy strategy has nearly been forgotten by some -- but not the President.

Much depends on the energy sector. Once again -- and no one know this fact better than this group -- the U.S. economy and energy growth are strongly linked. Without an energy plan that increases energy diversity, enhances efficiency and conservation, and modernizes our infrastructure, we cannot have a vibrant, growing economy.

Much depends on the American consumer -- their confidence that both the war and the economy are progressing.

Many of the factors that made an upturn seem possible on September 10 -- low inflation, low interest rates, and declining inventories and energy prices -- are still in play and provide encouraging signs. Fiscal stimulus actually began before the attack. The tax rebates and adjusted withholding pushed incomes up at a 12 percent pace in the third quarter.

We can't say precisely when the war on terrorism will be won. But does anyone in this room doubt that we will win? We have the strongest, most technologically advanced, most resilient military in the world, we will prevail on the national security front.

We can't say precisely when an economic turnaround will come. But no one should doubt that it will come. With the strongest, most technologically advanced, most resilient economy in the world, we will prevail on the economic front.