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**Subject:** : IMPORTANT - 3PM DEADLINE TODAY - LRM LJM41 - - TREASURY Testimony on State of the U.S. Economy and an Economic Stimulus

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Subject: IMPORTANT - 3PM DEADLINE TODAY - LRM LJM41 - - TREASURY  
Testimony on State of the U.S. Economy and an Economic Stimulus

Attached is Treasury Secretary testimony for tomorrow morning before the  
Senate Finance Committee. Please submit any comments by 3:00 P.M. TODAY -  
Tuesday, October 2nd. Thank you.

- Finance Testimony 10-3md.doc

LRM ID: LJM41

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503-0001

Tuesday, October 2, 2001

#### LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution  
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FROM: Richard E. Green (for) Assistant Director for  
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OMB CONTACT: Lisa J. Macecevic  
PHONE: (202)395-1092 FAX: (202)395-3109

SUBJECT: TREASURY Testimony on State of the U.S. Economy and an  
Economic Stimulus

DEADLINE: 3:00 P.M. TODAY Tuesday, October 2, 2001

In accordance with OMB Circular A-19, OMB requests the views of your  
agency on the above subject before advising on its relationship to the

program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Attached is Treasury Secretary testimony for tomorrow morning before the Senate Finance Committee. Please submit any comments by 3:00 P.M. TODAY - Tuesday, October 2nd. Thank you.

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LRM ID: LJM41      SUBJECT: TREASURY Testimony on State of the U.S.  
Economy and an Economic Stimulus  
RESPONSE TO  
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MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

- (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
- (2) sending us a memo or letter

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\_\_\_\_\_ No Objection  
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DRAFT

Opening Statement of Treasury Secretary Paul H. O'Neill  
Before the Senate Finance Committee  
October 3, 2001

Chairman Baucus, ranking member Grassley, and members of the Finance Committee, I want to thank you for this opportunity to appear before you this morning.

Let me start out by saying: the foundations of the U.S. economy, like the resolve of the American people, remains unshakably strong despite the terrorist attack on September 11. This nation, its people, and its economy will continue to excel over the long run as we have in the past.

That does not mean that every thing is as we would like it to be.

Let me begin by discussing with you where I see the current state of the U.S. economy.

**Economic Impact**

The tragic events of September 11 have depressed consumer spending, especially travel and travel related activity. The Administration has worked with Congress to craft appropriate and timely policy responses to recent events. Policy actions already in place - both monetary and fiscal - will help to provide support for the resumption of economic growth.

The fiscal policy stimulus in the pipeline is already substantial. It includes the Economic Growth and Tax Relief Reconciliation Act of 2001, which provided \$38 billion in tax rebates sent out in July, August, and September as well as increasing growth prospects by lowering marginal rates. More recently, the President and Congress have passed legislation setting up the Emergency Response Fund which authorizes \$40 billion for meeting disaster relief needs and increasing security measures, and the Airline Stabilization Act, providing \$5 billion in direct relief to the industry, and another \$10 billion in loan guarantees. And of course, the Federal Reserve has lowered the Federal Funds rate by 350 basis points since January.

As more information becomes available it may be necessary to consider additional fiscal measures to insure a rapid return to trend line growth. Let me emphasize that, notwithstanding the real and substantial dislocations that have occurred in recent weeks, the long run fundamentals of the economy remain sound, and will provide the foundation for solid and sustainable growth in the years ahead.

It is useful to consider, as a benchmark, where the economy would likely be heading were it not for the many and serious disruptions caused by the events of September 11. Many forecasters expected that the slowdown in growth experienced over the last four quarters was coming to an end, and estimated that growth would pick up in the fourth quarter of this year and accelerate in 2002, reaching its long run potential in the second half of next year. These expectations were based on a number of favorable factors:



- Aggressive Federal Reserve easing during the first eight months of the year.
- Stimulus to consumer spending from the tax rebates.
- Reduction of excess inventories, paving the way for future production gains.
- Easing of energy prices.

Following September 11, the Administration and private forecasters now think that the economy may contract in both the third and fourth quarters of this year, and thus delay - for a quarter or two - the return to economic expansion. Those weaker numbers reflect the impact of significant layoffs announced by the airline, hotel, and related industries, reduced consumer confidence, and lower equity markets.

The first comprehensive economic information we receive on September –to be released on Friday – will not provide much information on the effect of the attacks, although private forecasters expect it will show an increase from the August unemployment rate of 4.9 percent. Since the Labor Department surveys reflect employment in the early part of the month, workers affected by the attacks presumably showed up on payrolls and were counted as employed. We shouldn't be surprised to see a further worsening when the October figures are released, as the post-September 11 layoff announcements are translated into actual job losses.

We may get a bad set of statistics for October, but whether the entire fourth quarter is positive or negative will depend in part on how quickly federal help gets into the hands of those who will use it productively to increase our security, rebuild New York City, and provide incomes to those who have been affected. It will also depend on how quickly private rebuilding efforts are begun. As this spending comes online and the employment situation stabilizes, consumer confidence is likely to return, further reinforcing and accelerating our return to growth.

The depth of this contraction, as well as the pace at which the economy returns to a healthy rate of growth, will depend in large part on how fast consumers regain their confidence and on our success in incorporating new protections against possible terrorist acts without material reductions in productivity. The Administration estimates that the fiscal stimulus that is already in place will accelerate somewhat the return next year to sustainable growth and will dampen the rise in unemployment that a sluggish economy would otherwise generate.

A stimulus package should be balanced between maintaining consumer confidence and reducing taxes on businesses. I believe there is strong justification for a sizable component of any further legislation to be oriented toward reducing the tax burden on the corporate sector, a sector neglected from last summer's tax bill. Efforts that are oriented toward improving the cash-flow situation of businesses and that directly lower the cost of capital for undertaking new investment will reduce the likelihood of a prolonged downturn and hold unemployment rates down. There are obviously a wide range of potential tax measures that can achieve these objectives.

In conclusion, I want to thank you again for this opportunity to come before you today. I will now take any questions you might have.