

U.S Treasury Secretary John W. Snow

Keynote Address to the Tax Foundation

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Good afternoon. It's a pleasure to join the Tax Foundation today. Your tireless efforts to educate the public about America's tax burden have made a big difference here in Washington, and throughout the fifty states. Our tax policies are better for it, and our economy is stronger.

Let's talk about the state of the economy. Thanks in part to the President's tax policies, it's doing a lot better lately. When you consider what this country has gone through in the past three years, the body blows of a recession, terrorist attacks, a bursting bubble, and a rash of corporate scandals, it's quite amazing that the economy is growing at its current pace. That's a real testament to the strength of President Bush's economic leadership, to the flexibility of the American economic system, and the perseverance and industry of the American people.

Let me point out a couple specific indications of growth: last week the Department of Labor reported that our economy added 126,000 new jobs in October. And over the past three months, there were 286,000 new jobs. The unemployment rate fell to 6 percent. The four-week average for jobless claims has declined in six of the past seven weeks. And manufacturers reported that orders and shipments are both rising. This news comes one week after we heard that economic output rose at a 7.2 percent annual rate in the third quarter, the fastest pace of growth in nearly 20 years. ISM's manufacturing index advanced to 57.0 in October, its highest level since January 2000. The non-manufacturing index rose to 64.7, the second highest level on record. Factory shipments were up 1.4 percent in September and new orders by 0.5 percent. Construction expenditures rose 1.3 percent in September for a fourth increase in a row.

America's economy is getting stronger every day. American companies are investing. Americans are buying homes at a record pace, and homeownership is near record levels. Stock market values have risen, adding about \$2 trillion in wealth for investors since the beginning of the year.

We can all be encouraged, but we cannot be satisfied. These are early signs of progress. Now we must turn this progress into broad and lasting gains for all Americans. The most important thing we can do to help those looking for work is to make sure our current economic growth results in more new jobs. President Bush has proposed a six-point economic plan to encourage companies to expand and hire workers.

I will get to that plan in a moment. First, however, I think it's important to point out that this economic growth we are beginning to see didn't just happen by accident.

The President's Jobs and Growth Act passed in May, and it clearly provided the boost the economy needed to get back on track. In July, withholding tables were revised to show reduced marginal tax rates on income, and child tax credit checks went out in the mail. That lifted consumer spending.

The President's plan also increased bonus depreciation and quadrupled the expensing limit for small businesses, encouraging business investment. Dividend tax relief had a positive effect on the markets. In fact, equity prices have climbed about 30 percent since mid-March, improving financing conditions for businesses, and adding to household net worth.

Now, consider the situation we might have without the President's tax plans. The Treasury Department ran an analysis on that scenario, and the results were stark. Without the passage of the President's plans, by the second quarter in 2003, the unemployment rate would have been nearly 1 percentage point higher. As many as 1.5 million fewer Americans would be working, and real GDP would have been as much as 2 percent lower.

What's more, without the President's tax cuts, it is likely that by the end of 2004 the unemployment rate would be as much as 1.6 percentage points higher than it will be. 3 million fewer Americans would be working, and real GDP would be as much as 3.5 to 4 percent lower.

Still, the labor markets aren't picking up as fast as we'd like to see. I can tell you that President Bush is not going to be satisfied with this recovery until every American who wants a job has got one. We're not sitting back watching the numbers roll in - we're out there making this economy better - making conditions better for growth, investment, and job creation.

President Bush has unveiled a six-point plan to further strengthen this economy, and set us on a long-term path toward growth. Several of the planks are tax-related.

First, we are working to make health care more affordable and its costs more predictable, so employers can add new workers without also adding a large and uncertain burden of health care costs. We need to create an environment where health care spending is focused on providing high quality, high value care.

Second, we are working to prevent frivolous lawsuits from diverting money from job creation into legal battles. We also intend to ensure that when necessary lawsuits proceed, the settlements are paid to the victims, not the trial lawyers.

Third, we are working to build a more affordable, reliable energy system that can support the expansion of our economy. I'm going to dig into this one in a minute.

Fourth, we are streamlining regulations and needless paperwork requirements that reduce business productivity and deter growth.

Fifth, we are opening new markets to high value American products and bringing down prices for American consumers through trade agreements.

And sixth, we are working to make tax relief permanent, so businesses and families alike can plan for the future with confidence.

I would say that the fourth and sixth points are tax related. That is, streamlining regulatory burdens and making the tax cuts permanent.

The complexities of tax law compliance are among the toughest regulatory burdens in our economy. I can't think of any other kind of paperwork that puts a greater crimp in job creation than the many thousand page brick of the tax code and the productive resources that are wasted on complying with its rules. In other words, excessive taxes reduce investment in our economy, but so do the excessive burdens of complying with those tax laws.

Over the years, we have enacted both minor changes and major overhauls of our tax laws. We have grafted on more and more components to the point that the cost of complying with the tax laws - just on the individual side - is at least \$70 billion. That doesn't count the cost of businesses' complying or the cost of the IRS' administering it.

Some of the changes reflect an increasingly complicated world. But many do not. Whatever the case, we have paid insufficient attention to the costs we impose on society - the business world, in particular - in complying with the tax laws.

In the tax world, we have done the opposite of what the business world has done to increase productivity. While the business world has simplified to increase productivity, in the tax world, we've complicated things. While the business world has taken every process down to its constituent parts and cut out the inefficiencies, the points of friction that prevent the most streamlined operation and the standardization of transactions, we keep adding complexity in the tax world. The result is an ever-increasing regulatory burden. More paperwork. Less output.

One area where we intend to take action to lighten regulatory burdens is on simplified retirement savings rules. Retirement account regulations are among the most complex in our tax code. As Assistant Secretary for Tax Policy Pam Olson has pointed out, in 1982, the IRS publication explaining individual retirement accounts was 12 pages long. Now it is 104 pages long. Today, there are six different savings accounts with confusing and seemingly endless rules. The direct result is that the tax code makes it more difficult for Americans to save for retirement, or save for other key life events, such as education, health care, and unexpected emergencies.

Last February, as part of the President's budget, he proposed two simple accounts - retirement savings accounts and lifetime savings accounts - that will make saving for everyday life and retirement security easier and more attractive. This simplification will encourage Americans to save more for their future, and thereby invest more in our economy.

Another key area where the six point plan hits tax policy is point six: making tax relief permanent. Nothing will kill our prosperity faster than a repeal of the President's tax relief, which is scheduled to happen at the end of this decade if we don't take action now.

Consider this: if the 2001 and 2003 tax relief acts were to expire now, it would raise taxes by an average of \$1,544 for 109 million taxpayers in 2003.

One of the key elements of making tax relief permanent is making permanent the repeal of the death tax. The death tax falls on income that has already been taxed, sometimes twice before. It forces the destruction of thousands of small family businesses, and it discourages work, savings and asset-accumulation. It diverts resources into tax avoidance and enforcement that could be spent in economically productive activities. And in the end, studies show, it may all be a wash. It costs the government as much as it collects.

We're looking forward to working with the Tax Foundation to continue to get smart tax policies enacted. Thanks again for keeping American taxpayers educated about the tax laws and their government. We appreciate your support.