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GUEST OF HONOR

THE HONORABLE GEORGE W. Bush

President of the United States of America

PRESIDING OFFICER

R. GLENN HUBBARD

Chairman of the Club

QUESTIONERS

Gail D. Fosler

President ands Chief Economist

Paul A. Gigot

Vice President and Editorial Page Editor

Wall Street Journal

Introduction

R. Glenn Hubbard

THE PRESIDENT: Glenn, thanks for the kind introduction. Thanks for giving me a chance to speak to the Economic Club of New York. It seems like I showed up in a interesting moment -- (laughter) -- during an interesting time. I appreciate the fact that you've assembled to give me a chance to share some ideas with you. I also appreciate the fact that as leaders of the business and financial community, you've helped make this city a great place, and you've helped make our country really, in many ways, the economic envy of the world.

First of all, in a free market, there's going to be good times and bad times. That's how markets work. There will be ups and downs. And after 52 consecutive months of job growth, which is a record, our economy obviously is going through a tough time. It's going through a tough time in the housing market, and it's going through a tough time in the financial markets.

And I want to spend a little time talking about that, but I want to remind you, this is not the first time since I've been the President that we have faced economic challenges. We inherited a recession. And then there was the attacks of September the 11th, 2001, which many of you saw firsthand, and you know full well how that affected our economy. And then we had corporate scandals. And I made the difficult decisions to confront the terrorists and extremists in two major fronts, Afghanistan and Iraq. And then we had devastating natural disasters. And the interesting thing, every time, this economy has bounced back better and stronger than before.

So I'm coming to you as an optimistic fellow. I've seen what happens when America deals with difficulty. I believe that we're a resilient economy, and I believe that the ingenuity and resolve of the American people is what helps us deal with these issues. And it's going to happen again.

Our job in Washington is to foster enterprise and ingenuity, so we can ensure our economy is flexible enough to adjust to adversity, and strong enough to attract capital. And the challenge is not to do anything foolish in the meantime. In the long run, I'm confident that our economy will continue to grow, because the foundation is solid.

Unemployment is low at 4.8 percent. Wages have risen, productivity has been strong. Exports are at an all-time high, and the federal deficit as a percentage of our total economy is well below the historic average. But as Glenn mentioned, these are tough times. Growth fell to 0.6 percent in the fourth quarter of last year. It's clearly slow. The economy shed more than 80,000 jobs in two months. Prices are up at the gas pump and in the supermarket. Housing values are down. Hardworking Americans are concerned -- they're concerned about their families, and they're concerned about making their bills.

Fortunately, we recognized the slowdown early and took action. And it was decisive action, in the form of policies that will spur growth. We worked with the Congress. I know that may sound incongruous to you, but I do congratulate the Speaker and Leader Reid, as well as Boehner and

Mitch McConnell and Secretary Paulson, for anticipating a problem and passing a robust package quickly.

This package is temporary, and it has two key elements. First, the growth package provides incentives for businesses to make investments in new equipment this year. As more businesses take advantage, investment will pick up, and then job creation will follow. The purpose was to stimulate investment. And the signal is clear -- once I signed the bill, the signal to folks in businesses large and small know that there's some certainty in the tax code for the remainder of this year.

Secondly, the package will provide tax rebates to more than 130 million households. And the purpose is to boost consumer spending. The purpose is to try to offset the loss of wealth if the value of your home has gone down. The purpose is to buoy the consumer.

The rebates haven't been put in the mail yet. In other words, this aspect of the plan hasn't taken to effect. There's a lot of Americans who've heard about the plan; a lot of them are a little skeptical about this "check's in the mail" stuff that the federal government talks about. (Laughter.) But it's coming, and those checks, the Secretary assures me, will be mailed by the second week of May.

And so what are the folks, the experts, guys like Hubbard, anticipate to happen? I'm not so sure he is one now, but the people that have told me that they expect this consumer spending to have an effect in the second quarter, a greater effect in the third quarter. That's what the experts say.

The Federal Reserve has taken action to bolster the economy. I respect Ben Bernanke. I think he's doing a good job under tough circumstances. The Fed has cut interest rates several times. And this week the Fed -- and by the way, we also hold dear this notion of the Fed being independent from White House policy. They act independently from the politicians, and they should. It's good for our country to have that kind of independence.

This week the Fed also announced a major move to ease stress in the credit markets by adding liquidity. It was strong action by the Fed, and they did so because some financial institutions that borrowed money to buy securities in the housing industry must now repair their balance sheets before they can make further loans. The housing issue has dried up some of the sources of credit that businesses need in our economy to help it grow. That's why the Fed is reacting the way they are. We believe the actions by the Fed will help financial institutions continue to make more credit available.

This morning the Federal Reserve, with support of the Treasury Department, took additional actions to mitigate disruptions to our financial markets. Today's events are fast-moving, but the Chairman of the Federal Reserve and the Secretary of the Treasury are on top of them, and will take the appropriate steps to promote stability in our markets.

Now, a root cause of the economic slowdown has been the downturn in the housing market, and I want to talk a little bit about that today. After years of steady increases, home values in some parts of the country have declined. At the same time, many homeowners with adjustable rate mortgages have seen their monthly payments increase faster than their ability to pay. As a result, a growing number of people are facing the prospect of foreclosure.

Foreclosure places a terrible burden on our families. Foreclosure disrupts communities. And so the question is, what do you do about it in a way that allows the market to work, and at the same times helps people? Before I get to that, though, I do want to tell you that we fully understand that the mounting concern over housing has shaken the broader market, that it's spread uncertainty to global financial markets, and that it has tightened the credit, which makes it harder for people to get mortgages in the first place.

The temptation is for people, in their attempt to limit the number of foreclosures, is to put bad law in place. And so I want to talk about some of that. First of all, the temptation of Washington is to say that anything short of a massive government intervention in the housing market amounts to inaction. I strongly disagree with that sentiment. I believe there ought to be action, but I'm deeply concerned about law and regulation that will make it harder for the markets to recover -- and when they recover, make it harder for this economy to be robust. And so we got to be careful and mindful that any time the government intervenes in the market, it must do so with clear purpose and great care. Government actions are -- have far-reaching and unintended consequences.

I want to talk to you about a couple of ideas that I strongly reject. First, one bill in Congress would provide \$4 billion for state and local governments to buy up abandoned and foreclosed homes. You know, I guess this sounds like a good idea to some, but if your goal is to help Americans keep their homes, it doesn't make any sense to spend billions of dollars buying up homes that are already empty. As a matter of fact, when you buy up empty homes you're only helping the lenders, or the speculators. The purpose of government ought to be to help the individuals, not those who, like -- who speculated in homes. This bill sends the wrong signal to the market.

Secondly, some have suggested we change the bankruptcy courts, the bankruptcy code, to give bankruptcy judges the authority to reduce mortgage debts by judicial decree. I think that sends the wrong message. It would be unfair to millions of homeowners who have made the hard spending choices necessary to pay their mortgages on time. It would further rattle credit markets. It would actually cause interest rates to go up. If banks think that judges might step in and write down the value of home loans, they're going to charge higher interest rates to cover that risk. This idea would make it harder for responsible first-time home buyers to be able to afford a home.

There are some in Washington who say we ought to artificially prop up home prices. You know, it sounds reasonable in a speech -- I guess -- but it's not going to help first-time home buyers, for example. A lot of people have been priced out of the market right now because of decisions made by others. The market is in the process of correcting itself; markets must have time to correct. Delaying that correction would only prolong the problem.

And so that's why we oppose those proposals, and I want to talk about what we're for. We're obviously for sending out over \$150 billion into the marketplace in the form of checks that will be reaching the mailboxes by the second week of May. We're for that. We're also for helping a targeted group of homeowners, namely those who have made responsible buying decisions, avoid foreclosure with some help.

We've taken three key steps. First, we launched a new program at the Federal Housing Administration called FHA Secure. It's a program that's given FHA greater flexibility to offer refinancing for struggling homeowners with otherwise good credit. In other words, we're saying to people, we want to help you refinance your notes. Over the past six months this program has helped about 120,000 families stay in their homes by refinancing about \$17 billion of mortgages, and by the end of the year we expect this program to have reached 300,000 families.

You know the issue like I do, though. I'm old enough to remember savings and loans, and remember who my savings and loan officer was, who loaned me my first money to buy a house. And had I got in a bind, I could have walked across the street in Midland, Texas, and say, I need a little help; can you help me readjust my note so I can stay in my house? There are no such things as that type of deal anymore. As a matter of fact, the paper -- you know, had this been a modern era, the paper that had -- you know, my paper, my mortgage, could be owned by somebody in a foreign country, which makes it hard to renegotiate the note.

So we're dealing in a difficult environment, to get the word to people, there's help for you to refinance your homes. And so Hank Paulson put together what's called the HOPE NOW Alliance to try to bring some reality to the situation, to focus our help on helping creditworthy people refinance -- rather than pass law that will make it harder for the market to adjust. This HOPE NOW Alliance is made up of industry -- is made up of investors and service managers and mortgage counselors and lenders. And they set industry-wide standards to streamline the process for refinancing and modifying certain mortgages.

Last month Hope Now created a new program. They take a look -- they took a look at the risks, and they created a program called Project Lifeline, which offers some homeowners facing imminent foreclosure a 30-day extension. The whole purpose is to help people stay in their houses. During this time they can work with their lender. And this grace period has made a difference to a lot of folks.

An interesting statistic that has just been released: Members of the Alliance report that the number of homeowners working out their mortgages is now rising faster than the number entering foreclosure. The program is beginning to work, it's beginning to help. The problem we have is a lot of folks aren't responding to over a million letters sent out to offer them assistance and mortgage counseling. And so one of the tasks we have is to continue to urge our citizens to respond to the help; to pay attention to the notices they get describing how they can find help in refinancing their homes. We got toll-free numbers and websites and mailings, and it's just really important for our citizens to understand that this help is available for them.

We've also taken some other steps that will bring some credibility and confidence to the market. Alphonso Jackson, Secretary of HUD, is proposing a rule that require lenders to provide a standard, easy-to-read summary statements explaining the key elements of mortgage agreements. These mortgage agreements can be pretty frightening to people; I mean, there's a lot of tiny print. And I don't know how many people understood they were buying resets, or not. But one thing is for certain: There needs to be complete transparency. And to the extent that these contracts are too complex, and people made decisions that they just weren't sure they were making, we need to

do something about it. We need better confidence amongst those who are purchasing loans.

And secondly, yesterday Hank Paulson announced new recommendations to strengthen oversight of the mortgage industry, and improve the way the credit ratings are determined for securities, and ensure proper risk management at financial institutions. In other words, we've got an active plan to help us get through this rough period. We're always open for new ideas, but there are certain principles that we won't violate. And one of the principles is overreacting by federal law and federal regulation that will have long-term negative effects on our economy.

There are some further things we can do, by the way, on the housing market that I call upon Congress to do. By the way, Congress did pass a good bill that creates a three-year window for American families to refinance their homes without paying taxes on any debt forgiveness they receive. The tax code create disincentives for people to refinance their homes, and we took care of that for a three-year period. And they need to move forward with reforms on Fannie Mae and Freddie Mac. They need to continue to modernize the FHA, as well as allow state housing agencies to issue tax-free bonds to homeowners to refinance their mortgages.

Congress can also take other steps to help us during a period of uncertainty -- and these are uncertain times. A major source of uncertainty is that the tax relief we passed in 2001 and 2003 is set to expire. If Congress doesn't act, 116 million American households will see their taxes rise by an average of \$1,800. If Congress doesn't act, capital gains and dividends are going to be taxed at a higher rate. If Congress doesn't make the tax relief permanent they will create additional uncertainty during uncertain times.

A lot of folks are waiting to see what Congress intends to do. One thing that's certain that Congress will do is waste some of your money. So I've challenged members of Congress to cut the number of, cost of earmarks in half. I issued an executive order that directs federal agencies to ignore any future earmark that is not voted on by the Congress. In other words, Congress has got this habit of just sticking these deals into bills without a vote -- no transparency, no light of day, they just put them in. And by the way, this executive order extends beyond my presidency, so the next President gets to make a decision as to whether or not that executive order stays in effect.

I sent Congress a budget that meets our priorities. There is no greater priority than to make sure our troops in harm way have all they need to do their job. That has been a priority ever since I made the difficult commitment to put those troops in harm's way, and it should be a priority of any President and any Congress. And beyond that, we've held spending at below rates of inflation -- on non-security spending, discretionary spending, we've held the line. And that's why I can tell you that we've submitted a budget that's in balance by 2012 -- without raising your taxes.

If the Congress truly wants to send a message that will calm people's nerves they'll adopt the budget I submitted to them and make it clear they're not going to run up the taxes on the working people, and on small businesses, and on capital gains, and on dividends, and on the estate tax.

Now, one powerful force for economic growth that is under -- is being questioned right now in Washington is whether or not this country is confident enough to open up markets overseas, whether or not we believe in trade. I believe strongly it's in our nation's interest to open up markets for U.S. goods and services. I believe strongly that NAFTA has been positive for the United States of America, like it's been positive for our trading partners in Mexico and Canada. I believe it is dangerous for this country to become isolationist and protectionist. I believe it shows a lack of confidence in our capacity to compete. And I know it would harm our economic future if we allow the -- those who believe that walling off America from trade to have their way in Congress.

And so I made it clear that we expect for Congress to move forward on the Colombia free trade agreement. And this is an important agreement. It's important for our national security interests, and it's important for our economic interests. Most Americans don't understand that most goods and services from Colombia come into the United States duty free; most of our goods and services are taxed at about a 35-percent rate heading into Colombia. Doesn't it make sense to have our goods and services treated like those from Colombia? I think it does. I think our farmers and ranchers and small business owners must understand that with the government finding new markets for them, it will help them prosper.

But if Congress were to reject the Colombia free trade agreement, it would also send a terrible signal in our own neighborhood; it would bolster the voices of false populism. It would say to young democracies, America's word can't be trusted. It would be devastating for our national security interests if this United States Congress turns its back on Colombia and a free trade agreement with Colombia.

I intend to work the issue hard. I'm going to speak my mind on the issue because I feel strongly about it. And then once they pass the Colombia, they can pass Panama and South Korea, as well.

Let me talk about another aspect of keeping markets open. A confident nation accepts capital from overseas. We can protect our people against investments that jeopardize our national security, but it makes no sense to deny capital, including sovereign wealth funds, from access to the U.S. markets. It's our money to begin with. (Laughter.) It seems like we ought to let it back. (Applause.)

So there's some of the things that are on my mind, and I appreciate you letting me get a chance to come by to speak to you. I'm -- you know, I guess the best to describe government policy is like a person trying to drive a car on a rough patch. If you ever get stuck in a situation like that, you know full well it's important not to overcorrect -- because when you overcorrect you end up in the ditch. And so it's important to be steady and to keep your eyes on the horizon.

We're going to deal with the issues as we see them. We're not afraid to make decisions. This administration is not afraid to act. We saw a problem coming and we acted quickly, with the help of Democrats and Republicans in the Congress. We're not afraid to take on issues. But we will do so in a way that respects the ingenuity of the American people, that bolsters the entrepreneurial spirit, and that ensures when we make it through this rough patch, our driving is going to be more smooth.

Thank you, Glenn, for giving me a chance to come, and I'll answer some questions. (Applause.)

MR. HUBBARD: Thank you very much, Mr. President.

As is the Club's tradition, we do have two questioners. On my left, Gail Fosler, the President and Chief Economist of the Conference Board. On my right, literally and metaphorically, Paul Gigot -- (laughter) -- the editorial page editor of The Wall Street Journal.

Gail, the first question for the President is yours.

Q Thank you, very much.

THE PRESIDENT: Who picked Gigot? I mean, why does he -- (laughter.) All right. Excuse me. (Laughter.)

MS. FOSLER: I'm glad you don't know me, Mr. President.

THE PRESIDENT: Yeah, well -- (laughter.) I'd be more polite, trust me. (Laughter.) My mother might be watching. (Laughter.)

MS. FOSLER: I would like to probe your thoughts on trade. You raised trade in your speech very passionately. And the Conference Board is made up of 2,000 businesses around the world; about a third of them are outside of the United States. And they look at the move toward protectionism in the United States with great alarm, even the shift in the Republican Party toward protectionism. And you mention that a confident nation opens its borders, and there does seem to be a lack of confidence in this country. And I wonder if you would give us a diagnosis of why we find ourselves in the situation we do today?

THE PRESIDENT: First of all, a lot of folks are worried about their neighbors losing work. In other words, they fear jobs moving overseas. And the best way to address that is to recognize that sometimes people lose work because of trade, and when that happens, the best way to deal with it is to provide educational opportunities so somebody can get the skills necessary to fill the higher-paying jobs here in the United States.

And I think, for example, of what happened to the textile industry in North Carolina. And stories like these really do affect how people think about trade. You know, some companies because of mismanagement, some companies because of trade couldn't survive. And it created a wholesale displacement of workers throughout North Carolina. And what the state of North Carolina did was they wisely used their community college system to be able to fit needs and skills.

In other words, a community college system -- the interesting thing about it, it's probably the most market-driven education system in the United States. Unlike some higher education institutions that are either unwilling or sometimes incapable of adjusting curriculum, the community college system is capable of doing that.

And North Carolina recognized they had a great opportunity to become a magnet for the health care industry. And a lot of their textile workers -- with government help, called trade adjustment assistance -- went to community colleges to gain new skills. And it turns out that when you

analyze what happened, just the added value -- just kind of the increase in productivity and the relevancy of the job training made the wages higher for those than they were in the textile industry. There's a classic example of how to respond, rather than throwing up trade barriers.

Secondly, a lot of people don't understand this fact, that by having our markets open it's good for consumers. The more consumers get to choose, the more choice there is on the shelves, the less likely it is there will be inflation. And one of the great things about open markets is that markets respond to the collective wisdom of consumers. And so, therefore, it makes sense to have more choice, more opportunities. And yet when you read, "made from" another country on the shelves of our stores, people automatically assume that jobs are fragile. And so we've got to do a better job of educating people about the benefits of trade.

Third, it's -- sometimes, when times are tough, it's easy to -- it's much easier to find a -- somebody else to blame. And sometimes that somebody else that's easier to blame is somebody in a distant land.

And so those are some of the fact -- and plus it's easy politics. It's easy to go around and hammer away on trade. It's -- and I guess if you're the kind of person that followed polls and focus groups, that's what your tendency to be. I'm the kind of person who doesn't give a darn about polls and focus groups, and I do what I think is right. And what is right is making sure that -- (applause.) And sometimes if you're going to lead this country, you have to stand in the face of what appears to be a political headwind.

And so those are some of the dynamics that makes it hard. And I'm troubled by isolationism and protectionism. As a matter of fact, I dedicated part of my State of the Union address a couple of years ago to this very theme. And what concerns me is, is that the United States of America will become fatigued when it comes to fighting off tyrants, or say it's too hard to spread liberty, or use the excuse that just because freedom hadn't flourished in parts of the world, therefore it's not worth trying, and that, as a result, we kind of retrench and lose confidence in our -- the values that have made us a great nation in the first place.

But these aren't American values; they're universal values. And the danger of getting tired during this world [sic] is any retreat by the America -- by America was going to be to the benefit of those who want to do us harm. Now, I understand that since September the 11th, the great tendency is to say, we're no longer in danger. Well, that's false. That's false hope. It's either disingenuous or naive, and either one of those attitudes is unrealistic.

And the biggest job we've got is to protect the American people from harm. I don't want to get in another issue, but that's why we better figure out what the enemy is saying on their telephones, if you want to protect you. (Applause.) Notice I am deftly taking a trade issue and working in all my other issues. (Laughter.)

But I'm serious about this business about America retreating. And I've got great faith in the transformative power of liberty, and that's what I believe is going to happen in the Middle East. And I understand it undermines the argument of the stability-ites -- people who say, you just got to worry about stability. And I'm saying, we better worry about the conditions that caused 19 kids to kill us in the first place.

And the best way to deal with hopelessness is to fight disease like we're doing in Africa, and fight forms of government that suppress people's rights, like we're doing around the world. And a retreat from that attitude is going to make America less secure and the world more dangerous, just like a loss of confidence in trade.

And yet the two run side by side: isolationism and protectionism. I might throw another "ism," and that's nativism. And that's what happened throughout our history. And probably the most grim reminder of what can happen to America during periods of isolationism and protectionism is what happened in the late -- in the '30s, when we had this "America first" policy, and Smoot-Hawley. And look where it got us.

And so I guess to answer your question, there needs to be political courage, in the face of what may appear to be a difficult headwind, in order to speak clearly about the effects of retreat and the benefits of trade. And so I appreciate you giving me a chance to opine. (Laughter and applause.)

MR. HUBBARD: Thank you, Mr. President. The second and final --

THE PRESIDENT: Never bashful, never short of opinions. (Laughter.) Just like my mother. (Laughter.)

MR. HUBBARD: The second and final question for the President is from Paul Gigot.

Q Welcome to New York, Mr. President. And I want to ask you about something you didn't -- an issue you didn't address, which is prices.

THE PRESIDENT: Which is what?

Q Prices. Gasoline is selling for \$4 a gallon in some parts of the country, but food prices are also rising very fast -- grain prices, meat prices, health care prices. And the dollar is weak around the world, hitting a record low this week against the Euro. The price of gold is now about \$1,000 an ounce. Many observers say, oh, this means that we have an inflation problem. Do you agree with them, and what can be done about it?

THE PRESIDENT: I agree that the Fed needs to be independent and make considered judgments, and balance growth versus inflation. And let me address some of those issues one by one.

We believe in a strong dollar. I recognize economies go up and down, but it's important for us to put policy in place that sends a signal that our economy is going to be strong and open for business, which will -- you know, which supports the strong dollar policy, such as not doing something foolish during this economic period that will cause -- make it harder to grow; such as rejecting -- shutting down capital from coming into this country; such as announcing that, or articulating the belief that making the tax cuts permanent takes uncertainty out of the system.

Energy: Our energy policy has not been very wise. You can't build a refinery in the United States. You can't expand a refinery in the United States. The Congress believes we shouldn't be drilling for oil and gas in a productive part of our country like ANWR because it will destroy the

environment, which, in fact, it won't. Technology is such that will enable us to find more oil and gas. And so as a result of us not having, you know, been robust in exploring for oil and gas at home, we're dependent on other countries. That creates an economic issue, obviously, and it creates a national security issue.

And, look, I'm very -- I'm an alternatives fuel guy, I believe that's important. As a matter of fact, we've expanded -- mightily expanded the use of ethanol; a slight consequence if you rely upon corn to grow your hogs, but nevertheless it's a -- it is a policy that basically says that we got to diversify. But diversification does not happen overnight. You know, I firmly believe people in New York City are going to be driving automobiles on battery relatively quickly. And it's not going to be like a golf cart, it will be a regular-sized vehicle that you'll be driving in. (Laughter.) And I think it's coming. I think this technology is on its way.

But there's a transition period, and we, frankly, have got policies that make it harder for us to become less dependent on oil. You talk about the price of oil -- yeah, it's high. It's high because demand is greater than supply, is why it's high. It's high because there's new factors in demand on the international market, namely China and India. It's also high because some nations have not done a very good job of maintaining their oil reserves -- some of it because of bureaucracy, some of it because of state-owned enterprise. And it's a difficult period for our folks at the pump, and there's no quick fix.

You know, when I was overseas in the Middle East, people said, did you talk to the King of Saudi about oil prices? Of course I did. I reminded him two things: One, you better be careful about affecting markets -- reminding him that oil is fungible; even though we get most of our oil, by the way, from Canada and Mexico, oil is fungible. And secondly, the higher the price of oil, the more capital is going to come into alternative sources of energy. And so we've got a plan that calls for diversification, but it's -- our energy policy hadn't been very wise up to now.

Anyway, I'm going to dodge the rest of your question. (Laughter.) Thank you for your time. (Applause.)

END OF MEETING