Remarks at Atlantic/National Journal Event

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Commerce Secretary Gary Locke
Remarks at *Atlantic/National Journal* Event

I'd like to thank the *Atlantic* and *National Journal* for inviting me to talk about America's current and future place in the global economy.

There is no more important conversation for us to have, especially in light of the findings in this poll that finds many Americans questioning whether the U.S. is even the top economy in the world anymore.

Even though we’ve emerged from recession, too many Americans remain out of work or can’t afford to stay in their homes – and they want answers.

Unfortunately, the economic debate we have here in Washington rarely moves us closer to those answers.

Turn on the cables news shows, or look at our political campaigns, and the dominant narrative is basically that one political party is for the free market and the other wants to turn the United States into Western Europe.

But that's not a real debate. It is political theater.

When President Obama says – as he did earlier this year -- that “businesses are the engines of growth in this country,” he is reflecting my views, the views of his Cabinet, and those of most every Democrat in Congress

There is no real debate about whether the American economy should be led by the market or by the government. President Obama has said, he is “an ardent believer in the free market,” and that core belief shapes every one of the administration’s policy decisions.

That’s why the debate we need to be having is: “What kind of market do we want to have? What should it encourage and who should it work for?”

That's what we’re focused on inside the administration. That’s the conversation I’m having when I talk to business leaders. And that’s the conversation America needs to be having if we want to get people back to work and keep our competitive edge against foreign countries who are looking to eat our lunch.

Because the undeniable fact is that well before the financial crisis of 2008, something was profoundly wrong with the American economy. We weren't innovating enough and we weren't creating enough good middle-class jobs.

They’ll be writing books for decades about how we got to this place.

But one of the biggest reasons for our economic failure is that the market -- the tax laws, the rules, the regulations that govern it -- actually rewarded too many people for being irresponsible – for selling bad mortgages, for making bad loans and taking reckless risks with other people’s money.

That’s the bottom line.

And if there is more money to be made speculating in exotic financial instruments or housing than in seeding a new clean energy or biotechnology business, we shouldn’t be surprises when that’s where a big chunk of the capital and talent goes.

In the past decade, that’s exactly what happened.

The U.S. financial sector went from feeding the growth of new businesses and new industries to feeding on itself. By the middle of this decade, it accounted for $4 out of every $10 in corporate profits – a share unprecedented in modern history.

For me, there is no more striking example of how haywire things got than Washington Mutual. This was my hometown bank. It was born in Seattle in 1889, and when I was a kid, I had a little passbook savings account where I’d deposit a few quarters or a dollar every month. Looking back, it was quaint – the type of place where you might find George Bailey working.

But in 2008, after decades of reckless expansion and trafficking in subprime mortgages, my hometown bank became the largest bank failure in U.S. history. Three thousand jobs in Seattle were gone almost overnight. Washington Mutual stock that was trading at $45 a share in 2007, was trading at 16 cents by the next year.

This was a travesty for the banks workers and for the retirees, employees and pension funds who saw their retirement saving decimated.

But what happened at WAMU also held two profound lessons that should be at the forefront of every policymaker's mind for years to come.

The first is that our global economy is now so interconnected that the irresponsible actions of a few can threaten the overwhelming majority of American business that are trying to do the right thing.

And the second is that when we devote so much capital and talent to speculation, it diverts resources from real innovation and investment. That’s part of the reason why for the last decade, we have seen:

- The crumbling of our public and private infrastructure;
- A decade of anemic job growth and of stagnant middle-class incomes; and
- The U.S. ceding our leadership to countries in Europe and Asia in promising new industries ranging from clean energy to advanced technology products.

This catastrophe for American competitiveness occurred while supposedly pro-business leaders were shaping policy in the White House and Congress.

Now, I’m not here looking to assign blame. What I'm looking for is a way forward -- and that requires learning from what did not work in the past.

The simple fact is that this past decade – where we consistently cut taxes and cut regulations -- featured the slowest average annual growth since World War II.

And that is still true even if you stop measuring before the beginning of the recession in 2008!

This reality requires us to reconsider what it means to be pro-business.

We face an entirely different set of challenges than we did 30 years ago, and it’s time for our policies to reflect that.

America’s economic foundation is in need of repair, and until we attend to that, it's going to be tough to build sustainable businesses on top of it.

I know a little about foundations. Back when I still lived in Washington state, I used to enjoy renovating and repairing houses. Laying the foundation was always the hardest part. You had to get all that concrete and rebar in, and you had to make sure it was sound. You had to do a lot of work without much to show for it. But once you got that right, the house moved along pretty quickly.

That’s where we are with our economy. We’ve got deep-seated structural problems that can't get solved overnight.

For U.S. companies and their workers to thrive in the 21st century, we need quality roads, bridges, water and railways and airports to efficiently speed our goods and service across the globe.

We need a reliable electric grid and broadband infrastructure.

We need an education system that’s producing qualified workers for the high skill, high knowledge jobs of the 21st century and an R&D pipeline that’s consistently funneling new innovations into the marketplace.

As President Obama said earlier this week:

“We are in a fierce competition among nations for the jobs and industries of the future. And the winners of this competition will be the countries that have the most educated workers, the strongest incentives to innovate, and the fastest most reliable ways to move people, goods and information.”

But in recent years, the United States has underinvested in or ignored every single one of these prerequisites for economic growth.

In fact, a much-cited study out last year, found that no advanced industrialized economy had done *less* over the last decade to improve its economic competitiveness than the United States.

But since last year, the Obama administration has begun to rebuild our foundation by focusing on two key strategies.

We have, on the one hand, begun to rebuild the physical and regulatory infrastructure our businesses need to thrive.

We have significantly increased investments in the type of critical basic and applied research at federal labs and universities that is often too risky or too expensive for the private sector. This type of R&D has enabled the private sector to commercialize everything from the Internet, to GPS to memory foam mattresses.

In fact, President Obama has set a goal of the public and private sector combining to invest three percent of our GDP into research and development, which would be the highest share since the Kennedy administration.

And in a lot of cases, our federal investments are spurring huge multiples of private sector and other capital to work alongside federal dollars.

For example, the Obama administration is putting $90 billion in government investment and tax incentives toward clean energy – which has spurred $110 billion in additional capital. A lion's share of this is coming from the Department of Energy, which has led some commentators to say DOE has effectively become the largest clean energy venture capital fund in the world.

We've got a similar approach at Commerce for our program to expand high-speed Internet access. We're funding the construction or upgrade of 120,000 miles of basic broadband infrastructure – which the private sector is tapping into to deliver the Internet directly to homes or businesses in underserved communities across America. This effort will ultimately bring billions of dollars in private capital off the sidelines.

This isn't glamorous stuff – but these are the types of investments that can lay a foundation for sustainable economic growth for years to come.

And as we lay this foundation for the private sector to build on, we've begun to shift the marketplace incentives to encourage real innovation that's going to get businesses building and creating long-term instead of speculating for the short-term.

In fact, I think that idea is the thread that holds together all of the president's domestic initiatives on the economy.

The president is moving us towards:

- A tax code that rewards business more for domestic research and development and job creation rather than speculation;
- A financial system with less systemic risk and more incentives for solid credit expansion to small businesses and innovative companies;
- An education system that's going to produce another five million community college graduates by the end of this decade, and a workforce with the math and science skills we need to compete on the world stage; and
- An energy system that favors domestically-produced, cleaner forms of energy over foreign imports of oil.

This isn't big government dictating solutions.

Like pouring a foundation for a home, this is the government laying the groundwork for the private sector to succeed.

We're making targeted investments in R&D, infrastructure and other public goods where the private sector is unwilling or unable to invest.

And we are pursuing sensible regulation to create incentives for sustainable innovation and to create more stability in our economy.

I understand that a lot of businesses are reflexively against any government involvement in the economy. But I don't see how you can you look at the last 10 years and say -- as many people in this town continue to do -- that deregulation is the answer to every problem.

To paraphrase Keynes, the market may always be right in the long run, but in the short term:

- Enron can create an artificial energy crisis by shipping electricity out of California and then reselling it back to California consumers at obscene prices; and
- Some banks can leverage themselves 40 to 1 speculating in assets that are quite literally made up out of thin air.

Sure, the market will fix these problems eventually, but sometimes not before millions of people's lives are ruined.

That's why there's a limited -- but important -- place for government to put sensible rules of the road in place. Regulations to prevent irresponsible actions by a few ultimately free the rest of our businesses to innovate and create jobs.

And I'm heartened to see that the poll released this morning shows that most Americans agree with this sentiment.

The reality is that any government – regardless of its ideological disposition -- shapes the framework in which businesses operate.

The Obama administration is trying to create a framework that ends the boom and bust cycle of the last decade – that puts us back on a path to innovation and job creation.

And that leads to the final element of the administration's economic strategy. As American businesses design, produce and build more, we're working to connect them with the 95 percent of the world's consumers outside our borders through the president's National Export Initiative – which aims to double American exports by 2015.

Just a few weeks ago, I was on a trip with the president to Mumbai. A block from our Foreign Commercial Service offices, in an affluent area of office buildings, the sidewalks on both sides of the streets are taken over by make-shift dwellings – open to the elements, cloth roofs, plywood floors supported by broken cinderblocks.

You walk by and see women hunched over improvised Sterno stoves cooking the midday meal, and stray dogs picking over garbage littering the street.

It is a scene filled with a poverty that few in America have ever witnessed. And in many parts of Mumbai, it exists alongside a shimmering, newly-found affluence that would make Donald Trump blush.

The juxtaposition is a striking example of how far India has come and how far it has to go.

In Mumbai, I also thought about the many trips I've taken to Detroit since becoming Commerce Secretary, where I've seen the hollowed out factories and talked to the workers whose jobs had disappeared. . . workers who have seen things getting worse for decades and don't have any idea how it's going to get better.

A big part of the answer lies in those Mumbai streets. Today, India has a middle class larger than the entire population of the United States and the IMF projects its GDP will grow at 9.7 percent this year.

In the years ahead, there's going to be hundreds of millions of people in India, in China and around the world moving into the middle class, buying cars and clothes; drawing power out of new electric grids to fuel their homes and their appliances.

U.S. businesses and U.S. workers can provide those goods and services. And President Obama is pursuing the right policies to make it happen.

The fundamental strength of the United States economy has always been our ability to design and build things that help people around the world lead healthier, wealthier and more productive lives. When we've got the incentives right, when there are sensible public policies in place, there is absolutely no one in the world that innovates and creates like U.S. businesses and their workers.

There's no reason that can't continue.

But it's not going to happen on its own.

We are in a race for new businesses, new industries and new jobs, and as the president says, we can't settle for second place. This artificial economic conversation we have where you're either for the market or for big government is a waste of time.

The right conversation is: How can we make sure America competes and wins in the global economy? Our businesses are going to lead the way, but how can government help create an environment for them to succeed? This is the conversation you will all be having this morning and I commend you for having it.

We've got to keep at it.

Thank you.