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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 the 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 attacks 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 saw the economy heading before the September 11 attacks.

Starting in the summer of 2000, our economy struggled to throw off the effects of an unsustainable surge in investment in telecommunications and information technology. As investment plummeted in these sectors, the consumer kept the economy in barely positive growth territory.

In the third quarter of this year, leading up to September 11, I believe the economy was running at a low rate of growth and was likely to have concluded the quarter with a small but still positive growth rate.

The fourth quarter prospects were somewhat better, perhaps a real growth rate in the range of 1 to 2%. The 2002 outlook suggested a return to normal growth rates as the economy responded to favorable developments including:

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

The terrorist attacks of September 11 created disruptions that swept through our economy very quickly. Our airways were shut down and all of the travel-associated industries effectively came to a halt. Consumers stayed home and, as a consequence, it now seems certain that when the numbers are tallied for the third quarter, they will show that our economy experienced negative real growth.

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.

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 fourth quarter numbers will depend on how quickly consumer confidence rebounds. In just the past week, it appears we are beginning to regain our economic footing. Consumers are returning to the stores, airline usage is increasing and there are buyers again for `big ticket' goods such as automobiles.

The Administration has worked with Congress to craft appropriate and timely policy responses to minimize the economic downturn. 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.

We've also taken significant steps since the terrorist attacks. The President and Congress have approved $40 billion for meeting relief needs and increasing security measures, and have provided $5 billion in direct relief to the airline industry, with up to another $10 billion in loan guarantees to follow. Supporting this vital industry through this difficult period is crucial to restoring consumer confidence and maintaining thousands of jobs in the airline and related industries. And of course, the Federal Reserve has lowered the Federal Funds rate by 400 basis points since January.

There is broad agreement that in order to have the appropriate impact on the economy the fiscal impact of an economic growth package should approximate 1 percent of GDP. With the actions already taken, about $50 billion of spending has already been put in motion. Recognizing this, the President has instructed me to work with the appropriate members of Congress to formulate a package of actions with a fiscal year 2002 impact of $60 to $75 billion. The President believes, and there seems to be broad bipartisan agreement in the Congress, that we should take care not to put upward pressure on long-term interest rates.

It is clear that the components of the stimulus package are just as important as its size. I look forward to working with you to ensure that the package address three priorities: restoring consumer demand, supporting business investment, and helping those affected by the September 11 attacks. We welcome the positive comments from members of Congress on ways to help the economy. We are confident we can come together to create a fiscally responsible stimulus package that will restore confidence and prosperity in our economy.

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.