The Economic Club of New York

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The Honorable Jacob J. Lew, Secretary

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Questioners: Terry Lundgren
Chairman and CEO of Macy's

Peter Henry
Dean, NYU Stern School of Business

Roger Ferguson: Good morning. Good morning and welcome to the 437th meeting of the Economic Club of New York. I am Roger Ferguson, chairman of the club, which is now in its 107th year as the nation's leading nonpartisan forum for economic policy speeches. Throughout the long history of the Economic Club of New York, we've had more than 1,000 guest speakers appear before us establishing a strong tradition of excellence which we continue today. I would like to begin by recognizing the 214 members of our Centennial Society who have contributed their support to ensure a sound future for the club. Thank you for helping the club continue to fulfill its mission well into our second century. It is now my honor to introduce today's speaker, Treasury Secretary Jacob Lew. Secretary Lew was confirmed last February to serve as the 76th Secretary of the Treasury. He previously served as White House Chief of Staff and as Director of the Office of Management and Budget, a position he also held in President Clinton's cabinet from 1998 to 2001. He first joined the Obama administration as Deputy Secretary of State for Management and Resources. Prior to that, he was in New York City at Citigroup and NYU. Today Secretary Lew will speak about the economy and then he'll be joined by two of our members for a conversation. We will end at 9 a.m. Secretary Lew, the floor is yours.

The Honorable Jacob J. Lew

Good morning, and thank you, Roger, for that kind introduction, and thank you all for coming today. It's a pleasure to be here at the Economic Club of New York, which has been at the center of economic policy discussions for more than 100 years. I appreciate this chance to discuss some of the challenges and opportunities we face.

We meet today during a period of fundamental change in our economy. Our population is growing older. The skills needed in today's workforce are shifting. Global competition for business and investment is becoming more intense. And technological innovation is happening at a rapid speed. Our core responsibility is to make sure our economy is as vibrant and robust for our children and grandchildren as it was for previous generations. And the ultimate test for all of us will be how inclusive tomorrow's economy becomes and how widely our economic gains flow.

The American story has always been one of embracing change – capitalizing on groundbreaking ideas, inventions, and events to build a better future for the next generation. And the combination of our innovative spirit and smart public policy has always been a recipe for success in this country.

After the industrial revolution and the steam engine increased productivity and efficiency, it was leaders like Teddy Roosevelt who fought for an eight-hour workday to improve working conditions. After electricity transformed cities, it was FDR who brought power to farmlands, mountain communities, and other remote areas of the country. And after innovations in engineering led to the creation of the automobile, it was Dwight Eisenhower who changed the United States forever by building the Interstate Highway System, boosting commerce and productivity, giving Americans of all walks of life new choices about where to live, work, and travel.

Yet, many today wonder whether something that has always been true in our past will be true in our future. There are questions about whether America can maintain strong rates of growth and doubts about whether the benefits of technology, innovation, and prosperity will be shared broadly. We have the capacity today, as in our past, to address these concerns as long as both the private sector and the public sector commit to policies that strengthen workers, innovators, and investment. It is up to each of us – government and business – to make choices that will secure our future.

Today, I want to discuss how we can meet the challenges of the 21st century by focusing on things we can do to expand the potential of our economy and allow anyone willing to work hard to succeed.

We meet at a time when structural, not fiscal challenges, demand our immediate attention. This Administration has always been committed to meeting our obligations in a fiscally balanced and responsible way. We have made tough choices to shrink our budget deficit by more than half. And over the next ten years, we're on a path that will put our debt as a share of the economy on a declining trajectory and reduce our deficit to below 3 percent of GDP.

Of course, we have all known for decades that Social Security, Medicare, and Medicaid face long-term challenges stemming from an aging population and the cost of health care. And we'll need to address these challenges to make sure the promise at the core of these programs remains

ironclad. But we're not grappling with a rapidly widening budget deficit that requires urgent short-term action, nor do we face an economy in free fall. We're already seeing a slowdown in rising healthcare costs. So in the debate over entitlements and how much revenue we need in the medium and long term, we will be better served if we concentrate first on building a firm foundation for future economic growth. The crisis we face today is the need to make sure the economy is expanding fast enough to support a growing middle class and greater opportunity for all Americans. Investments that boost growth and job creation today, tomorrow, and 25 years from now will put us in a stronger position to address our future fiscal challenges.

Evidence continues to mount that our economy is gaining traction. After a slow first quarter, partly because of a harsh winter, we, along with most forecasters, expect the underlying strength from the end of last year to continue and lead to a much stronger second quarter and second half of the year. Nevertheless, we cannot escape the fact that millions of Americans continue to struggle, and their pain reminds us that our work is not yet finished. Unemployment is still too high and economic growth is still too slow. And for too many families this hardly feels like a recovery.

As we work to accelerate growth and create jobs, we face economic challenges already in motion well before the economic crisis. For example, the labor force participation rate has been falling for some time now. After decades of increases as women entered the workforce, the labor force participation rate turned down in 2000, and the decline accelerated during the recession.

Increases in the level of income inequality similarly pre-date the recession, but since the recovery began, while corporate profits and non-farm productivity have risen, hourly compensation has only just started rising, and not by enough to make up for lost ground. As our economy grows and our workers become more productivity, this progress needs to reach the lives of more hardworking Americans.

From 1948 to 2007, the U.S. economy grew on average by 3.4 percent a year. The Congressional Budget Office now projects that after the economy settles back to full employment, the economy will grow at a rate of 2.1 percent – or only about two-thirds the post-war levels. But there's something we know – the choices that we make over the years to come can alter this projection.

Economists describe economic potential as our capacity to produce goods and services. And we can only expand our potential if we focus on the three pillars that have made the U.S. economy a global powerhouse: the dynamism of our workers, investments that make us more productive, and our capacity for innovation. We can debate how to invest, but there is no debating that investment in these three critical areas is the key to our long-term growth. And how we make these investments will shape the economy and the opportunities of our children and grandchildren.

First, our workforce. Our workers are the most creative, hardworking, and resilient in the world,

and they are the backbone of our economy. But the growth of our workforce has slowed considerably. From 1948 to 2007, we added approximately 93 million people to the workforce, or 2 percent a year . Since the recovery started, the average annual growth in the workforce was just 1 percent. And since 2008, the labor force participation rate has actually fallen by 2.7 percentage points. The Council of Economic Advisors has estimated that about half of the decline is a result of our aging population. And the fact that Baby Boomers who contributed to the economy are leaving the workforce to enjoy well-deserved retirement is a good thing. They're already on track to work longer than previous generations. But we should not allow a lack of employment opportunities or outdated skills to push a generation of workers into early retirement. We also need to make sure that young adults coming of age after the Great Recession are not trapped in a no man's land as the long-term unemployed.

For every job opening in the economy, there are now 2.2 unemployed Americans. But that will not always be the case. And among the unemployed, about one out of every three unemployed workers has been out of a job for more than six months. We know that after a long period without work, you're much less likely to re-enter the workforce than if you have been jobless for just a short period of time. But if the long-term unemployed give up on the labor market, it is not only an individual tragedy, it means we lose their productive economic capacity forever.

Now as daunting as these challenges are, we can confront them. Let's start by looking at something that every business can do. The President has called on CEOs of large corporations to

make a good-faith effort to hire from the ranks of the long-term unemployed. Because of misperceptions and screening policies, it's hard to even get an interview after a long period without work and these workers can sometimes face outright discrimination. We need to give the long-term unemployed a fair chance for a new start.

The Administration and a group of bipartisan lawmakers have been pushing to restore the lifeline of emergency unemployment insurance for the millions of long-term unemployed. And while Congress has not yet acted, it remains a fact that this assistance would go right back into the economy, benefitting American businesses and creating American jobs. But we also need to do a better job helping workers who want to re-enter the workforce. For workers born decades before anyone knew what an "app" was, we need to make sure that worker training, career counseling, and job placement are available so we don't throw out years of experience just because we need to update the tools in their toolkit. And we need to make sure that business is engaged in the choices we make in government training programs so that these programs promote skills needed in the workplace.

To be effective, it must be a group effort, and the Administration has brought local governments, businesses, and community colleges together to increase apprenticeships and job training initiatives, and we've taken action to reform federal training programs. In addition, there is now a bill moving through Congress that is supported by Democrats and Republicans in both the House and the Senate to overhaul worker training programs.

As we modernize the way we prepare workers for today's economy, we also must modernize our tax system so it encourages more men and women to hold onto their jobs. The Earned Income Tax Credit has done a lot to help families get a start, and to make it possible to live on entry level wages. But right now, we want to expand it so that childless workers who are just starting out can stay in the workforce, see the value in keeping a job, and become lifelong contributors to our economy, while helping employers retain workers.

Strengthening programs like family leave and early childhood education will also make it easier for mothers and fathers with young children to stay in the workforce. The largest increases we saw in the labor force in the last century came as women entered the workforce. Supporting families is a proven way to tap into our human capital resources. And we need to raise the minimum wage so working full time at least gets you above the poverty line.

Of course, we cannot repeal the Baby Boom, but we can address the resulting decline in the labor force by addressing our outdated economically backwards immigration system. There are millions of people around the world who dream of coming to the United States to do what Americans have done since the beginning of our country – work hard, play by the rules, raise a family, and contribute to our vibrant economy. And throughout our history, the rich tradition of welcoming immigrants to our country has been a hallmark of our economic success.

Quite simply, immigration reform is good economic policy. The nonpartisan Congressional Budget Office has estimated that the immigration reform bill, which passed the Senate on a bipartisan basis last year, would increase the labor force, boost GDP by almost 3.5 percent over the next ten years, and improve our fiscal position by $158 billion, strengthening the Social Security and Medicare trust funds. It will also create a new wave of consumers who will fuel demand and generate economic activity. And we know that immigrants and children of immigrants are more likely to start new businesses. Forty percent of the Fortune 500 and countless tech firms have been started by immigrants or their children.

America has a world-class education system, but we need to continue to address the uneven access to quality education. When it comes to early, middle, and high school education, many of our children are ill-served. The President wants to expand ConnectEd and other programs that provide students from rural and urban communities with access to the latest technology to make sure that the digital divide does not leave a large portion of our students behind. As the President asked when he introduced ConnectEd, “in a country where we expect free WiFi with our coffee, why shouldn’t we have it in our schools?”

We know that we are making progress. National high school graduation rates have hit new highs, driven by increases among minority students. We also know that post high school education is the key to economic opportunity. For many, four year colleges are the right answer. But for others, we need to make sure they have the right choices to gain the skills needed for the

21st century economy. Associate degrees, industry-accepted certifications, and earn-while-you-learn apprenticeships are the right approach for many. The truth is, we have to create more higher education options. For instance, we should ask ourselves if earning an undergraduate degree in three years might be a better, more cost-effective option for some students to get their education. And we need to focus on ways to make higher education more affordable, including making student loan debt more manageable.

Now let me talk about investment. For years we have heard that businesses need more confidence in the future before they will invest again. But indices of both consumer and business confidence are stronger now than at any point in a long time. Instead of facing recurring government crisis, we have a path for predictable and stable policy for the next two years. And capacity utilization is rising again. Now is the time to take a fresh look at opportunities to invest in our economy. Investing in our country – in plant and equipment – has always driven our potential.

From 1948 to 2007, nonresidential fixed investment grew at an average annual rate of 8 percent, fueling our industrial base and the booms of the 1950s, 60s, 80s, and beyond. But during the recent recession, nonresidential fixed investment fell sharply, and since the recovery began, it has only grown at an average annual rate of 4.5 percent. American businesses are sitting on historically high levels of cash, and what we need now is for businesses, including many of you in this room, to come off the sidelines and make investments in our future.

Meeting with foreign leaders, I am told over and over how the foundation of our economy makes the United States an ideal place to invest – our stable rule of law, strong protections for intellectual property, research institutions, vibrant supply chains, proximity to large consumer markets, and our thriving energy sector. To get long-term investment back where it should be, you need to do your part and we need to do ours.

To encourage domestic investment, the President wants to reform our tax system by lowering statutory business tax rates and leveling the playing field so that investment flows to where its return is greatest, not simply where taxes are lowest. We need a tax code that stops rewarding companies when they open up operations overseas and starts rewarding companies for bringing operations home.

Now, we often think about American firms investing elsewhere, but in 2011, the President started an initiative called SelectUSA to bring more job-creating investments to the United States. And today, when surveyed, businesses around the world rank the United States the best place to invest. To make investing in America even more appealing, we need to make infrastructure investments a priority again. Building our roads, railways, bridges, and ports has been one of the most historically bipartisan ways to create jobs today and lay a foundation for future economic expansion.

I grew up in Queens and could walk two blocks to the subway for a 20-minute ride to midtown. And in fact, many afternoons in high school, I did just that. So I understand what good, reliable transportation options mean to families, workers, and businesses. But it does not matter whether it's Long Island City, Kansas City, or Salt Lake City, strong infrastructure is essential for strong economic growth. Congestion hurts businesses and workers. It costs time, money, and energy.

And when you think about how our ports are not ready to handle modern super-tankers even as the Panama Canal is being made deeper, how the vast majority of our water pipe network was installed after the Second World War, how our mass transit systems are both inadequate and in need of repair, and how more and more of our bridges are regularly cited as public dangers, there is no question we need to get this done.

Other countries understand this, and they are making the kind of investments that we keep putting off. That is why we are pushing for the re-authorization of funding for highways. It's also why the President has put forward a proposal to create an infrastructure bank to make smart and effective investments with public and private partnerships. The American Society of Civil Engineers projects that by 2020, the deficiencies in our infrastructure will cost business more than $1 trillion every year in lost sales. To pay for this, the President would use one-time transition revenue resulting from business tax reform, which is a double win, making the United States an even more attractive place to invest.

This Administration recognizes how imperative this is. That is why we've cut the red tape that slows progress. For example, by fast-tracking the new Tappan Zee Bridge, the Administration helped the project reach the construction phase in a mere 18 months, shaving as much as three years off the schedule. The first span is now expected to open in 2016, just two years from now, and the bridge should be fully completed by 2018.

When CEOs are deciding where to locate, they need to know that roads are efficient, that railways can move their products, and that ports are deep enough to handle the demands of a global economy. And it just makes sense that partnerships between the government and the private sector should be part of the solution. Again, the choices that we make, or fail to make, will shape the economy of our future.

Finally, let me discuss the important role technology plays in our economy. Between the end of World War II and 2007, the contribution to economic growth from technological change has averaged just over 1.2 percent a year, or enough to double output about every 60 years. The truth is, technology has the ability to transform the economy in ways we can only imagine today. Still, there are those who fear the IT revolution will mean a permanent state of high unemployment and low wage jobs. But history tells a very different story. There has never been a time when technological gains have cause decades of unemployment in the United States, but it is true that transitions can be hard, and managing today's technological transition is critical. We need a deep commitment to science, technology, engineering, and math education so that the

next generation has the skills to keep making innovations, and the training to be analytical and innovative in a competitive global market. And Federal support for cutting edge research and development remains critical if we are to remain the leading innovator in the world.

Just think, the productivity of the American worker is now about four times what it was at the beginning of the 20th century. This means that we should need only one-fourth of the workers we had in 1900 to produce everything we produced then. Yet the innovations of the early 20th century that led to this increase in productivity did not lead to a time when three-quarters of our labor force was ever underemployed or unemployed. What happened time after time is that when innovation and productivity drove change and economic growth, our workers adapted and more people were needed for new jobs.

Over the past year, I have visited a number of factories in our resurgent manufacturing sector. From electronics to consumer appliances and from auto parts to information technology, what American plants can produce is amazing. But more amazing still is how much each worker in those plants is producing because of the skills they have and the cutting-edge technology they use. Technological innovation and entrepreneurial spirit has long been our greatest strength. And our policy choices can make this just as true for the future. Yet we face a number of challenges in the years to come. We need a credible long-term funding plan for basic research in this country. We also need to reform our intellectual property rights system in order to reward real discovery, discourage patent trolling, and allow scientific advancements to get into the hands

of those that need them. Research and development are critical to unlocking private sector innovation, and that's why this administration and lawmakers on both sides of the aisle want to reward long-term investment and make the R&D tax credit permanent.

Even as we're working hard to get back to full employment, we cannot afford to simply live up to our potential, we must expand it. Many of the policies I've just discussed have bipartisan support, and they will help secure our economic future. And the pendulum in Washington may be swinging back at least a bit. After years of mistrust and gridlock, in the last six months Democrats and Republicans have found common ground to do a number of key things – passing a farm bill, setting our budget priorities, funding the government, and extending the debt limit. We now have the opportunity to forge ahead on things that have broad bipartisan support, like infrastructure investment and tax reform. And you need to demand that Washington does its part.

When Henry Ford rolled out the Model T, he could not have imagined where it would lead. In the 1990s, we could not see the huge impact of technology on productivity that we later learned was revolutionizing the workplace. And today a breakthrough is happening somewhere in America, perhaps in a garage or a dorm room. If we take the right steps, our economy will be prime to take advantage of the next innovation. Doing so will require an engaged American workforce, a business sector investing in America, and a government whose polices are aimed at the future and shared prosperity.

So what economy are we leaving to the next generation? The choices we make will answer that question. Economists, who almost never agree, all agree about what determines the long-run success of an economy. The labor force, the capital stock, and technological innovation. Those components have always been the driving force, the source of the "Wealth of Nations" to use Adam Smith's words. While government can eliminate obstacles and provide important tools, the government is not what makes an economy. The private sector is the defining feature of our economy, and the joining of sound policy with a surging private sector will determine our economic future. Thank you very much and I look forward to the discussion.

Q & A DISCUSSION

ROGER FERGUSON: Thank you very much Mr. Secretary. Now two of our club members will join the secretary in a conversation. They are Terry Lundgren, Chairman and CEO of Macy's and Peter Henry, Dean of NYU Stern School of Business. Gentlemen, please.

TERRY LUNDGREN: Mr. Secretary, thank you for your comments this morning. The first question I have for you is about jobs. So the unemployment rate has gradually been coming down. We're at about 6.3 percent now, but as you know it's been stubborn and a great deal of that has been due to the declining workforce as you pointed out in your comments. Why is it taking so long? Seventy-six months to be exact for us to get back to the 2000 level workforce enrollment.

THE HONORABLE JACOB J. LEW: Well, Terry, the nature of the Great Recession has a lot to do with the nature of the recovery. It was a financially-led recession with a very, very deep impact on the housing market. And I think when you look at the economic performance over the last number of years, we've seen a lot of signs of sustained strength. We've seen stronger growth in manufacturing than many predicted. We've seen virtually every sector of the economy coming back, with housing and construction being the slow one behind, which is not a huge surprise when you think about the structure of the recession – with a huge overhang of housing stock and a slowdown in the rate of household formation. I'm actually optimistic that when you look at the structure of the recovery, there are reasons to believe that there will be a strengthening of the recovery which is very strong, I believe, already. You know the question of whether we're in a 2.5 to 3 percent or an over 3 percent economy has a lot to do with getting workers back into the workforce who have become discouraged or are no longer participating in the workforce. I do think that the remarks I made reflect some of the structural challenges we have. We know that after six months of unemployment, it is more challenging to get back into the workforce. Obviously with a tightening labor market, that will create stronger incentives for employers to bring those workers back. But I think that we need to work together to make sure that we make that transition one that's as easy as possible, because what we can't afford is to have millions of workers just check out of the labor force. As the Baby Boom retires, we're not going to have so much slack in the labor market, and we're going to need those workers for the economy of the future. I can justify it in terms of the opportunity for the individuals or the opportunity for our economy. But both give you the same, drive you to the same conclusion, that

we need them back in the labor force. I also think it's a reason to be optimistic that our potential GDP may be higher than people think it is because as those workers come back into the economy, we have a larger workforce. And it also means that some of the fears of inflation, because of the unemployment rate being down to 6.3 percent may be premature, because there is actually more slack in the labor market than that statistic suggests.

PETER HENRY: Mr. Secretary, I'd like to connect your comments, and in fact Terry's question as well, to the international economy. So as important as it is to have resilience of the U.S. economy, we know that we live in an inter-connected world. And specifically Europe is an important market for us, and the European recovery remains anemic. A recent Bloomberg poll shows that roughly three-quarters of financial professionals are concerned about deflation. We're seeing some deflation in Portugal and Greece. In your mind, is the European Central Bank doing enough to ward off deflation? Is deflation a concern of yours? And then finally, is the European Central Bank doing enough to encourage the kinds of structural reforms that you alluded to in the United States that also need to happen in Europe? Labor market reform and so on.

THE HONORABLE JACOB J. LEW: Europe is a very important part of the global economy, but it's very important to the U.S. economy. It's our largest export market. If demand in Europe is going down, that's not good for the U.S. economy. So I would say that it is something that we have a deep interest in, not a distant interest in. And I think for a long time I've been making the

case in a number of different roles that the response in the United States to the recession was with more vigor than the response in Europe. We jump-started our economy faster. We reformed our financial system faster. And we're now seeing growth that reflects that. So I don't think it's just a question of monetary policy. I think it's a question of fiscal policy. The political decision-making process in Europe is challenging. There are different views. The deeply indebted nature of many of the governments in Europe made it more challenging. But with that said, my belief is that there are surplus countries in Europe that could be doing more to generate demand than they have been, and that would be a good thing for Europe's economy. I try not to comment on monetary policy overseas or domestically. And the features of some of the decisions made in the recent announcements by the ECB I think kind of highlight some of the concerns we've had about the kind of underlying challenges in Europe's economy. So last week when the European Central Bank put in place some policies to try and very strongly encourage banks to lend to small and medium-sized enterprises, that is a deep structural problem in Europe. You know with the exception of a couple of countries, small and medium enterprises have just been shut out of the market for capital. And that is the way job growth has historically happened in Europe. So if you're in the periphery in Europe, you have just not been able to do anything to get your economy going because you can't create small and medium-sized enterprise job opportunities. You know I don't know how effective this tool will be, but I do know that the goal of channeling capital to small and medium-sized enterprises is important. You know one of the things that we have in the United States that is, I think, of great value is we have a backstop in our FDIC, in our bank regulatory structure that Europe just doesn't have. And they've made

an important move in that direction. And my concern is, is it far enough? Is it fast enough? You know they've built a kind of mutualized risk pool that over the better part of a decade grows to about 50 billion euros. It's probably 10 percent of where it needs to be and takes twice as long as it should to get there. So the challenge is there's still more to do in Europe. I think they've made enormous progress. I think obviously Europe in a positive space is significantly important to the United States. We share our views pretty freely with our European friends, and we will continue to encourage them to continue to move in the directions that I've just described.

TERRY LUNDGREN: I'd like to move to the corporate tax rate. You again mentioned this in your remarks. I think I've heard the President say that, at least agree with the business community, that it is at a very high and uncompetitive rate at this point. We almost lost Pfizer recently. And largely they were looking at a tax advantage with their merger with AstraZeneca. Is there an opportunity for us on both sides of the aisle to come together and agree that reducing the corporate tax rate would actually create jobs in America and prevent situations like Pfizer from happening in the future?

THE HONORABLE JACOB J. LEW: Terry, I actually think there is broad agreement that our tax code is quite broken and needs to be fixed. The challenge in tax reform is always bringing together that broad bipartisan coalition because there will be winners and losers in any tax reform. And the only way it's ever happened, the only way it happened in 1986, the only way it's happened ever, is when there's a broad sense that it's the right thing to do for the country so

that you don't have that kind of picking apart of any proposal. There's no doubt that the high statutory business tax rate in the United States is distorting decisions. Our effective tax rate is much lower than our statutory tax rate. And the high statutory rate against much lower rates in other countries I think does drive things like inversion decisions. I hope that the public attention to these inversions actually helps to stimulate more of a public debate about this issue and broaden the political will to go into this space. In terms of whether there's the basis for a bipartisan agreement, I think it's very striking that if you look at the white paper that the Administration put out, the proposed plan that Chairman Camp put out, the plan that former Chairman Bock has put out, they overlap very substantially. In a world where the decision to get something done was made, those plans could be the basis for going into a room and quickly reaching agreement. I actually think what the President put out as a suggestion last summer is a very important piece of the debate. I mentioned it briefly in my remarks. When we do business tax reform, there will be one-time revenues that come in. It's true whenever you change the tax code. If you have a new system of hybrid territorial, global, worldwide tax system, there will be incentives that bring some revenue in. If you go to a new depreciation schedule, there will be timing shifts that bring revenue in. What we know is you can't take one-time revenues and reduce rates, paying for them with one-time revenues, because when the one-time revenues are gone, you will lose revenue in the long run. So those one-time revenues can either be used for deficit reduction or to do one-time spending that we desperately need. And infrastructure is the perfect combination, it's the perfect combination. It's what we need to build our economy. It's where we have bipartisan consensus. And I think that if you look at the proposal that Chairman

Camp put out, it actually picked up on the theme. So there's even been a quiet bipartisan recognition that that's a conversation that should continue. So I think we're going to need to continue making the case for it. It's also going to be important that the business community continue to make the case for it. And not just at the moments when a transaction is in the headlines and about to happen, we need to create the sense that this is going to be a reality so those transactions don't happen.

PETER HENRY: Discussions around the tax code often segue into the context of international cooperation for obvious reasons. So I don't want to ask you about the tax code, but I want to ask you about U.S. leadership in the international economic arena. We often talk a lot about U.S. foreign policy leadership, international economic leadership is also very important. You spend a lot of your time testifying before Congress on the importance of approving IMF reform and the importance of increasing the IMF's quota, or the U.S. quota at the IMF, and the importance of this. The G20 has just given the U.S. a year end deadline to finally ratify IMF reform. Could you explain why IMF reform matters for U.S. businesses? And what are your views about the prospects of actually getting that done this year?

THE HONORABLE JACOB J. LEW: I think that if you look at the role the IMF plays in the world, it is and needs to continue to be the first responder when there is an economic necessity, when it's a global financial crisis or a situation like Ukraine. There simply is no other mechanism that can respond with the kind of power that the IMF can. The 2010 IMF reforms

were designed to increase the voice of emerging economies and frankly maintain the U.S. role. And it came at the expense of other highly developed countries, mostly Europe. So it is a good deal for the United States. It is an agreement that preserves our sole position with a veto power in the IMF, that preserves our sole voice as the strongest voice in the IMF, and it is something that Congress needs to ratify. We have made the case for it. I actually think we've made real progress in convincing members of Congress about the importance of the IMF. It has gotten tangled up with other extraneous political issues and those need to be separated, and we need to get it done. I think you have to go no farther than these last few months to see the importance that the IMF plays in terms of projecting U.S. leadership. You know when the Ukrainian people asserted their will and took control of their own destiny and put in place a new government, the first thing that government realized was it had to get its economic house in order, that there was no foundation of strength for their future without an economy that cleared out the problems of the past. They were willing to make tough reforms, and they needed a package of assistance. I don't think it's an exaggeration to say that without the U.S. voice at the IMF, the world community probably would have responded with a three or a six-month package to tide over until after the election, to kind of see where things were going. The U.S., in that debate, said this is a moment when the world community has to have confidence in the people of Ukraine. It has to have confidence in the commitments the interim government is making. And it has to put in place a large program that's something you can build a stable future on. And we convinced the world community to do that. Now that is a form of projecting U.S. power that's immensely important. And it's something that if we don't keep our commitment to the IMF, we won't be as

effective doing in the future.

PETER HENRY: What do you see, the prospects for getting that done?

THE HONORABLE JACOB J. LEW: Look, I'm an optimist. I think we, having overcome, I think the substantive hurdles of convincing members that this needed to happen, we ended up in the unfortunate place of it being tied to a completely extraneous and controversial political issue. So I'm optimistic that after the election there will be an opportunity to revisit this. I made the case in the IMF spring meetings that realistically we would need until the end of the year to have another shot at doing this. It is something the President is deeply committed to. It's something I am deeply committed to. And I believe there's a majority in the Congress that's prepared to do this if we can disentangle it from other issues.

TERRY LUNDGREN: Your answer to my question on corporate tax reform is consistent with what I've heard in Washington for the last couple of years, but I didn't hear at the end of your statement that...and we think we're going to get this done by...

THE HONORABLE JACOB J. LEW: Well, I think, you know, you have right now a new Chairman of the Senate Finance Committee who is very committed to tax reform. You have a current Chairman of the House Ways and Means Committee who has been committed to tax reform and likely a successor who is equally so. I think that the conversation in the tax policy

world continues even as we're in a period where legislative action is not likely. I think it's something that's obviously not a before-the-election kind of issue. But I think that if the focus remains on how do we prevent U.S. companies from moving overseas, and how do we have a tax code that will promote investment in the United States, we have a good shot at building the bipartisan support to get this done. And I don't think we can do it without the strong voice of the business community. So I think that this is something that we can only do if there is external support for it, pressure for it. And I would just commend the idea of linking it to infrastructure as something that's worth the attention of people who support tax reform because there's an awful lot of support for doing infrastructure. And if tax reform were seen as a way of paying for it in a responsible way, that's I think an advantage.

TERRY LUNDGREN: Right. I do think we can do, we can all do a better job of marketing this subject as not just helping big corporations, but rather creating jobs, helping infrastructure. There's a lot more we can do in the business community as well as Washington to help market this in a more effective way.

THE HONORABLE JACOB J. LEW: I mean I tell you, Terry, there are challenges on both sides. On the Democratic side, there are a number who would like to see the loopholes in the business tax code closed and that money used for something other than tax reform. I don't think it's a majority but that's a view. On the Republican side, there are not an insignificant number who want to tie business tax reform to cutting the personal tax rate for pass-through businesses.

I think we're going to have to find a path in the middle where we can agree that it is in the best interest of the U.S. economy and job creation to do business tax reform because I think that those other views are not the basis for bringing everything together. And that's a challenge, so I'm not going to sit here and say it's a 90/10 proposition. But the economic case for it is strong. The alignment of thinking amongst tax policy writers in Congress and in the Administration is, I think, something that should give cause for optimism that there's an air there to reach an agreement. And creating a political movement to make it more of a priority is something that we are going to drive, but frankly needs to be driven from the outside as well.

TERRY LUNDGREN: In addition to tax reform, are there one or two other ideas that are out there that you think can get done, that both sides of the aisle can come together and make happen?

THE HONORABLE JACOB J. LEW: Look, infrastructure is clearly the item that has broad bipartisan support and an urgency to act soon. The highway bill expires this year. I think it's almost unthinkable that Congress will let the highway bill expire. When they extend it, the question is do they make it permanent? Do they do it for a short period of time to create a window for an infrastructure debate? You know the long-term infrastructure debate probably will take more than the time between now and the end of the year. But I don't think it should be put off beyond this year. We have to get deeply into it, and it's something that we're planning to put a lot of energy into between now and the end of the year. I would have been a bit more

optimistic about immigration reform if we were meeting earlier. I think there is still bipartisan...

TERRY LUNDGREN: Before this morning?

THE HONORABLE JACOB J. LEW: There's still broad bipartisan support for immigration reform. I think, you know, that it's important, for all the reasons that I put in my remarks to get it done. And we're going to have to keep plugging away at it. I think you look at other issues, I mentioned the worker training bill. I think there is going to be a bipartisan bill on worker training. On patent reform, there should be bipartisan agreement on patent reform. So there are quite a few important things for our economy that I believe we can get done in the next couple of years. And we're going to have to keep plugging away at it looking for that sensible center. And the fact that we've spent much of the last three years kind of embroiled in fiscal policy debates that were very divisive made it more difficult to deal with some of these issues. I actually think the window right now is one that we should take advantage of to do other things. And we can then, and will need, to come back to fiscal issues. But if we try to do everything at the same time, the risk of the noise drowning out these issues that are so fundamental to our economic future is something I worry about.

PETER HENRY: I'd like to ask about China. China is at economic crossroads. Growth has slowed there. Last fall they declared a very ambitious reform program. The Strategic and Economic Dialogue with China is coming up in July. What are your priorities for the discussion

with China? It seems as though tensions over the exchange rate have come down a bit, and China has really declared their intention to move to more of a consumption-driven model of economic growth as opposed to just an export-driven model of growth. What are the priorities for the dialogue? And what, in your view, can the Treasury do to help China achieve their reform agenda which would also be in the U.S. interest?

THE HONORABLE JACOB J. LEW: I have spent a considerable amount of time in the last year and a half working on these issues with my Chinese counterparts and the senior leadership in China. And I genuinely believe that the things we are pressing on them are consistent with what they know to be in their own long-term best interest. And that is, I think, something that should give us some optimism that we can make progress in this relationship. They know that they have to move to more market-determined exchange rates. We've made the point very strongly, I've made the point very strongly, that they need to do it sooner rather than later because it very much affects the ability of the United States and China to work closely economically. They know they need to have more market, a more market-oriented economy. They're dealing with enormous excess capacity in housing and in industrial capacity that is the result of non-market allocation of credit and resources. I think the challenge that they have is that the changes that they need to make are disruptive. Their economy has been growing more slowly, and I continue to believe they have the tools in the short run to keep their economy growing at a level that's adequate for their needs and less disruptive to the global economy. But that is probably going to make it more challenging for them to implement the long-term reforms

as quickly as they need to. Now I think that it would be a tremendous mistake if they put off the long-term decisions because the medium and the long-term, they won't always have the capacity to make up for the gaps in growth. They need the reforms so that the kind of internal market mechanisms, the economic mechanisms, are creating the space that they need for their own economy to do well. You know we've joined very difficult issues, issues like intellectual property and cyber-security. When I talk to you as businesses about investing in China, I almost always hear a concern, well, if we do business with them once, will we then be giving our intellectual property over so that in the future they'll just do it by themselves? They know that that has to change. They say as much. They are proud of how many prosecutions they've made of violations of intellectual property law. But they still have a long way to go. In the strategic space, there are many stresses right now between China and the region and issues between the United States and China. In the economic space, I think they would very much like for it to continue to be a conversation that is constructive and productive. I'll be going with Secretary Kerry in July for the Strategic and Economic Dialogue. We're going to continue to try and make progress on the economic side, on the exchange rate reform, on market access, and on having the reforms that make their economy more market-oriented generally. And we will, I think, continue to make progress. What I have been saying, again what I believe is we will continue to see progress, but it probably will frustrate us, how slow the progress is. And they're going to need to speed it up, I think, a little bit in order for it not to feel that way.

PETER HENRY: I hope you reach a happy medium.

ROGER FERGUSON: So thank you, Secretary Lew. Thank you Terry, and thank you, Peter. The next meeting of the club will be on Friday, June 20. Our speaker will be SEC Chair, Mary Jo White. Thank you all for coming. Thank you very much.