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Remarks at the first session of the White House conference on the new economy

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The President. Thank you, and good morning. I want to welcome all of you here for this conference. Let's get right to work.

We meet in the midst of the longest economic expansion in our history and an economic transformation as profound as that that led us into the industrial revolution. From small businesses to factory floors to villages half a world away, the information revolution is changing the way people work, learn, live, relate to each other in the rest of the world. It has also clearly changed the role of Government and how it operates.

This conference is designed to focus on the big issues of the new economy: How do we keep this expansion going? How do we extend its benefits to those still left behind in its shadows? What could go wrong, and how do we avoid it? That's what I hope this conference will be about.

The roots of this meeting stretch back to our first economic conference in December of 1992 in Little Rock, shortly after I was elected President. Then, some of the leading minds from around the country and across the economic spectrum addressed a challenge that, to all Americans, was immediate and clear: Unemployment was high; interest rates were high; the deficit was exploding; the debt had quadrupled; even an apparent recovery was generating no jobs; and inequality had been increasing for well over a decade.

Thanks to a strategy designed to bring down the deficit and convert it into surpluses, to expand trade, to invest in education, training, and technology, and to establish conditions in which the new economies could flourish, especially in the Telecommunications Act, which was passed about 4 years ago now, the American people, American entrepreneurs, have given us a remarkable recovery.

The performance of the new economy has been powered by technology, driven by ideas, rooted in innovation and enterprise. It has opened doors of opportunity and challenged our very understanding of

economics. I remember sitting around a table in Little Rock in 1992, asking my economic advisers how low unemployment could get without triggering inflation. The consensus was somewhere between 51 percent and 6 percent.

Now, bear in mind, these were people who were philosophically committed to low unemployment and were willing to resolve doubts in favor of it. No one believed then we could have 4 percent unemployment on a sustained basis without inflation. No one believed that this economy could generate productivity rates of more than 2 percent a year on a consistent basis. Now, we're nearly at 3.

There is no single answer about how this happened. I think, clearly, the nature of the new economy and the strength of the American entrepreneurial system led the way. The fact that many of our traditional industries and workers increased their productivity played a role. I also believe the Government's commitment to fiscal discipline, to expanded trade, to investment in people and technology, and to cutting edge researchand again I say, to establish the conditions in which the new economy could flourishplayed a large role as well.

Now, one of the things that I think is important to focus on is just some basic facts. Information technology today represents only 10 percent of American jobs, but is responsible for about 30 percent of our economic growth. It accounts now for about half of business investment. And just as Henry Ford's mass-produced cars and the assembly line itself had broad spillover effects on the productivity of the American economy, these new technologies are doing the same thing, rifling through every sector of our economy, increasing the power of American firms and individuals to sure broadly in its prosperity.

Today, information technologies allow industries to recognize, instantaneously, changes in demand and to manage their inventories more efficiently and quickly. They are speeding the development of new products to market. Supercomputers, for example, have helped Detroit automakers cut the development times of new cars by half or more. They've helped pharmaceutical companies cut down the development time for new anticancer drugs by several years.

Clearly, they will have a profound effect, information technologies, in biomedical sciences in the 21st century, as we see by the simple fact that in the next few weeks, we will announce for the first time the complete sequencing of the human genome, something that will have been literally impossible without information technology. And of course, just contemplating the potential impact of nanotechnology on the biological sciences alone staggers the imagination.

Information technology clearly is also creating a lot of more

mundane opportunities in E-commerce for traditional businesses, as well as the .com companies. And businessto-business E-commerce is growing even faster than business-to-customer commerce. In 3 years, it may reach a staggering $1.3 trillion in the United States alone.

We know all of this is just the beginning. So now we want to share the best ideas and ask the right questions. Economists, for example, like to talk about speed limits for the economy: Do we have higher speed limits today? Do they exist anymore? How do we measure the impact of technology in this economy? What will be the sources of tomorrow's growth?

We know when it comes to education that the right teacher and the right computer can give a student in the poorest neighborhood the same access to every library and every source of information as a student in the most privileged private school. But those who are left out will be left further behind. How do we close the digital divide? Can poor areas in the United States and entire developing nations leapfrog an entire stage of development, jumping ahead to cutting-edge technologies, avoiding not only the time it takes to go through the industrial economy but also the unpleasant side effects, particularly of pollution and global warming. How can we best make that happen? How important is information technology relative to other pressing needs of developing nations, such as health or education or improving agricultural productivity? Or do they go hand-inhand?

Technology can allow nations to grow their economy without harming the environment. How do we convince people around the world, and even in the United States, that this is true?

I believe the computer and the Internet give us a chance to move more people out of poverty more quickly than at any time in all of human history. I believe we can harness the power of the new economy to help people everywhere fulfill their dreams. On my recent trip to South Asia, I saw the beginnings just the beginnings-of that potential.

But it is clear that none of our hopes for the new economy-which are really hopes for a better society, one in which we are brought together, not driven apart; one in which we sustain our Earth, not exploit it; one in which we lift up the poor, as well as those of us who are better off-that these developments will not just happen. They, too, will take new ideas, new initiatives, new innovation, the kind of thing that so many of you have done for so many years now. I thank you for being here. I thank you for being part of this dialog. And I'd like to get started.

Our first panel discussion is entitled, "Is the New Economy Rewriting the Rules on Productivity and the Business Cycle?" And I'd like to ask Abby Joseph Cohen, chair of the investment policy

committee at Goldman Sachs, to begin.

Thank you very much.

[At this point the first panel discussion began, and the President called on several of the participants.]

The President. Thank you. I promised myself I wasn't going to inject myself into this until we-[laughter]-until we heard from everybody. But I just want to throw out two or three questions, because I want to get-after we hear from the panelists, I want Secretary Summers and our CEA Chair, Martin Baily, to say a few words. And then I want to have some questions.

But just-all of you have raised a couple of issues. Let me just ask you to think about this, everybody. On this question of the business cycle, we've had, since the Second World War and before the information technology revolution, generally a trend of longer expansions and shorter recessions. So that's, presumably, the product of generally better economic management. Is there something inherent in the technology revolution, as Professor Romer at Stanford and others have argued, that basically, if it doesn't repeal the business cycles, it makes them far more elastic even than better economic management would warrant?

The second thing I think worth questioning is, have we avoided inflation due to wage demands because workers are smarter than they used to be and they understand that they're in a global economy and they can't ask for more than their company's prof its will warrant?

And the third thing I wanted to just ask you to think about, since I was hoping Professor Galbraith would raise this question of whether I was making a mistake to try to get us out of debt, because some of my good friends have accused me of practicing Calvin Coolidge economics-let me tell you what my reasoning is, and I just want you all to think about this, because I'm prepared to have somebody say I'm wrong about this.

The reason that I wanted to continue to pay down the public debt is that private debt in this country is so high, both individual and business debt, and I worry in the same way you do about that coming down not only on individual firms and families but also on the economy as a whole. So I figured what really matters is the aggregate savings rate or the aggregate debt-to-wealth ratio, and if I can keep bringing down the public debt, we could keep interest rates down and at least lengthen the time between now and some darker reckoning on that.

So the reason that I always thought it was important to pay down

the public debt, once we got into surplus, is that private borrowing is so high in this country. And the debt-towealth ratio is not bad at all, because of the value of the markets. But still, the individual and firm debts are quite high. So I was trying to get the aggregate balance right, and that's been my logic all along and why I think it's different from previous times when, I admit, the Government's been in surplus when it should not have been.

Professor Nordhaus.

[William D. Nordhaus, a professor of economics at Yale University, made brief remarks, and the panel discussion continued.]

The President. Thank you. They did a great job, didn't they? Let's give them all a hand. Thank you.

I would like now to ask Secretary Summers, and our CEA Chairman, Martin Baily, to make a few brief remarks, and then I will open to the audience and the panel for discussion.

Larry?

[Treasury Secretary Lawrence Summer and Council of Economic Advisers Chairman Martin Baily made brief remarks.]

The President. Thank you very much. Anybody in the audience like to make a comment or ask a question to any of our panelists? Yes, ma'am. If you could stand and identify yourselves, and then I'll just move around the room as best I can.

[At this point, the question-and-answer portion of the session began.]

The President. I would just like to make a couple of observations just very briefly about this. Even though the participation of women in the labor force is the highest it has ever been, the unemployment rate among women is the lowest in 40 years. That's the good news. The bad news is there is still about a 25 percent pay gap.

The unemployment rate among AfricanAmericans and Hispanics is the lowest we've ever recorded, although we've only been disaggregating it for, I think, just a little less than 30 years. But still, it's much lower. But the per capita income is still quite-there's a lot of difference.

The poverty rate has gone down dramatically among African-Americans

and Hispanics but not as much for Hispanics as African-Americans-I suspect because we have more first generation immigrants coming in still, who are classified as Hispanics in all this data collection that we do.

I would just like to posit-first of all, my sense is-and I've fought this battle hard for all these years-that the opposition to affirmative action is easing again, as the middle class members of the majority feel a little more secure. But what I am interested in is, how do we take these hopeful numbers and sort of translate them into genuine economic parity?

For example, we're debating in the Congress now how much we ought to raise the cap for the H-1B visas, basically to get the high-tech workers in the Silicon Valley into the Washington, DC, area and other places. And I basically-I'm a pro-immigration person, generally. I think it's made our country stronger, and I'm not against this. But we don't still have, in my judgment, a comprehensive enough strategy to move a lot of African-Americans and Hispanics who are in the work force now-so they have X level of education, but they're not yet in the new economy, so that they're fully participating.

And I think this is still a continuing challenge for us. Two years ago African-American high school graduation rates equaled white graduation rates for the first time in history. That's the good news, and all these things you've said are absolutely right. But we're still not there on college-going, college graduation, and participation in the new economy. And we need a lot of focus on it.

The second question you asked is, what happens the next time there's a recession? I'd like to point out, if I might defend the position I took, briefly, in welfare reform, we basically-welfare reform, in terms of the money that welfare recipients got, was already a State-determined entitlement before welfare reform, because the States got to set how much they were given. So the rate for a family of three varied everywhere from $187 a month, roughly, in Mississippi, and about that much in Texas, to $655 a month in Vermont, before welfare reform.

We kept the national requirement for food stamps and for medicine. And what we're trying to do is find more efficient ways to move people into the work force. We have done that. The great unanswered question is, if there is high unemployment again, what do we do with the work requirements and how do we make sure people get a good income stream when they literally can't go into the work force? And that's a challenge that will have to be addressed. But the tools are there to do it.

Yes?

[The - question-and-answer session continued.]

The President. Since we want to hear from everybody, I can't possibly answer the education question, but I will give you one sentence on it. Every problem in American education has been solved by somebody somewhere. There are public schools performing at an astonishing level with children from very diverse backgrounds, in terms of income, race, ethnicity, and first language.

The big challenge in American education is nobody has figured out a mechanism to make what works in a lot of places work everywhere, which is why we're trying to change the law to stop giving out Federal money to people who don't produce results and spend it based on things that we know will work.

This is not a cause for despair. There are success stories everywhere, under breathtakingly difficult circumstances. The problem is, we haven't figured out how to replicate it, or we don't have enough incentives to replicate it. And that ought to be something that we focus on, plus bringing opportunity out there. In New York City, you've got kids going to school in buildings that are heated by coal. We have schools that are too old to be wired for the Internet. We've got a lot of physical problems, and we have to continue to invest in. But we are moving on that.

On the patent thing, you know, Tony Blair and I crashed the market there for a day, and I didn't mean to. [Laughter] But I think what happened is--when the market's recovered, I think what happened is people actually read the statement instead of the headlines, or whatever.

I think in the biotech area, our position ought to be clear. General information ought to be in the public domain as much as possible about the sequencing of the human genome. And where public money contributed to massive research on the basic information, we ought to get it out there. If someone discovers something that has a specific commercial application, they ought to be able to get a patent on it. And the question is always going to be, are you drawing the line in the right place? But I believe we've got the people together with the skills and the experience to draw the line in the right place. And I think that's the right policy. I'm quite confident it is. And what we really need now is to make sure it is implemented in the right way.

Fred? And then we'll just keep going.

[C. Fred Bergsten, director, Institute for International Economics, made brief remarks, and the question-and-answer session continued.

The President. If I could just make one comment about this. I'm worried about it, the size of the trade deficit. But I would like to just make two counter arguments that you should all consider.

There is no question in my mind that the openness of our markets in the last 7 years has kept inflation down and enabled us to grow more. And I could give you lots of very specific examples when we began to see tightening of supplies and various products and services where there would be a little spike, and it would come down.

The second thing is, we had a very strong economy, stronger--more growth than our friends in Europe and Japan did, both at the time of the Mexican crisis, which imperiled all of Latin America, and at the time of the Asian financial crisis. Now, I think those things happened for reasons that all of us could debate till the cows come home, and I think there have been some improvements in the international financial architecture which will minimize the likelihood of the recurrence of that.

But I believe that America keeping its markets open, even absorbing a bigger def icit, helped Asia to recover more quickly, helped Mexico to recover more quickly, and over the long run, therefore, was good for the American economy as well as being the responsible thing to do. So I'm worried about it, but given the historical facts surrounding each of the last 4 or 5 years, I don't know that we could have avoided it.

[The question-and-answer session continued. I

The President. If I could just make one observation. I think another thing we're going to have to make up our minds to do, if we want the schools to function well, is to pay the teachers enough to get good teachers. California has just passed a very impressive reform proposal that will allow very large bonuses to go to teachers that actually produce results. And I'm going to be very interested to see whether it meets with the support of the people and actually produces improved learning and outcomes.

But teachers in California actually are going to make a decent living as a result of the reforms just adopted by the legislature that the Governor supported. So I think you all have to come to terms with this. We've got the biggest student body in American history, the most diverse one, and 2 million teachers are about to retire. So for all of our reform prescriptions, if you want good people to go into these classrooms, they're going to have to be paid.

[The question-and-answer session continued.]

The President. I want to call on the gentleman over on the left, and then I'm going to have to call this session to a close, because we've got to go to breakout sessions and we have two more panels and we'll all be able to continue this conversation.

Go ahead, this is the last question.

[The question-and-answer session continued.]

The President. What I'd like to do is give our panelists here a chance to comment. I have some thoughts on it, but we're going to have a panel, the last panel of the day is going to deal with the impact of the new economy on governance. And that's a very, very important issue, so I hope you will all hang around for it. But I'll defer what I have to say till then. But would any of you like to talk about this?

Go ahead.

[The question-and-answer session continued. I

The President. Let me say before we leave, since a couple of you mentioned the global aspect of this, I just got a note that I think is very good news. The Speaker of the House, Dennis Hastert, announced this morning that he scheduled a vote on permanent normal trading relations with China, which would open their markets to our goods and services, for the week of May the 22d, and this is very good news.

This agreement slashes tariffs by about half on everything from automobiles to agriculture to telecommunications, and it also slashes those tariffs which protect the staterun industries in China which, in large measure, have been the instrument of single-party control there. So I think it will lead to an opening of the society and a rise in freedom and personal choice.

We're talking about the new economy. Two years ago there were 2 million Internet users in China; last year there were 9. I think this year there will be somewhere between 20 million and 25 million.

So I think that this is very very important. And I want to thank the Speaker and the leadership of the House for doing this. And I assure you, I will do what I can to pass it. I think it's not only in our economic interest, this is a profoundly important national security interest for the United States. So we end the panel on a piece of good news.

Thank you very much. Let's go into our breakout session.

NOTE: The President spoke at 9:25 a.m. in the East Room at the White House. In his remarks, he referred to Paul Romer, professor of economics, Stanford University; James K. Galbraith, professor of public affairs and government, University of Texas-Austin; and Prime Minister Tony Blair of the United Kingdom. The transcript released by the Office of the Press Secretary also included the remarks of the participants.