THE ECONOMIC CLUB

OF WASHINGTON, D.C.

Excerpts from the Signature Event featuring The Honorable Jeffrey Zients, Director of the National Economic Council and Assistant to the President for Economic Policy

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The marketplace is the global economy. Let's do competitive analysis. We have a very strong position. We have our historical lead in innovation. Thirty percent of the patents worldwide come from the U.S. Fifteen out of the top 25 research universities are here. We are the leaders in R&D. Second, our workforce is the most productive in the world – 30 percent more productive than Germany, two times or more productive than China and South Korea. Third – and we would not be talking about this a decade ago – is energy. A decade ago we would have said, from a competitive perspective, this is a vulnerability, not a strength. We're now the number one producer of oil and gas in the world.

We are optimistic about where the economy is headed, you see it in the jobs numbers – we have 54 straight months now of job growth, over 10 million private-sector jobs created. This is led by the private sector ¼ GDP was just revised up for the second quarter to 4.6 percent. When you break down the components, consumer balance sheets are in decent shape, you're seeing some pickup in consumer spending. Corporate balance sheets are in terrific shape and we're starting to see some increased investment there.

Premiums are up about 3 percent this year versus 2000 to 2010, when they were growing closer to 6 percent, 7 percent, so cut in half. The Federal Government benefits because health care is a big piece of the federal budget. If you look at the 2020 projections now on health care, Medicare and Medicaid spending, we're saving about $200 billion versus what the forecast was just a couple of years ago.

We have a short-term patch on infrastructure. It's a great opportunity for the country to be investing in infrastructure. Interest rates are low. Construction worker unemployment is relatively high. We have a great need. ¼ And it's really a twofer. Most importantly, it sets us up for long-term competitiveness in an increasingly global market ¼ So it's a great time to be investing in infrastructure that can help our recovery, help create more middle-class, well-paying jobs. That's a piece of business that we're hopeful that we can make progress on in the new Congress.

... there's reason to be optimistic on corporate tax reform. Both the President and Republicans have talked about revenue-neutral corporate tax reform. ... Let me run through the three components. The first is to lower our statutory rate, which is 35 percent. That is too high. It's the highest of OECD countries. The president would take away deductions, loopholes and bring that into the high 20s. Camp *(R-MI, Chairman of the House Ways and Means Committee)*, the same thing, probably into the mid-20s. So same basic approach. The second is, how do you tax overseas earnings? Right now we operate under a global system where that 35 percent rate applies – but it doesn't apply when the earnings are earned, it's when they're brought back to the country. That discourages many companies from repatriating their profits. That's a global system. The other system that some countries deploy is a territorial system, you pay the rate in the country where you're earning the income. The problem with the territorial system is it creates sort a perverse race to the bottom for the lowest corporate tax rates in the world. What the President proposes is a hybrid, which is to have a minimum tax. So if you're in a country and that tax rate is above that level, ¼ you don't owe any further taxes. If it's below that level, you'd pay the gap between what the country's rate is. Again, same structure as Chairman Camp's. Some differences in where you set the level. Final piece is how do you bring the money back that's overseas right now? Both have a repatriation tax at a lower level than the levels we've talked about.