

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

**Excerpts from the Signature Event featuring The Honorable Henry M. Paulson, Jr.,
Secretary of the U.S. Department of the Treasury**

January 7, 2009

“In my previous job in the investment banking industry, I spent a great deal of time working with corporate clients, governments, and in financial markets around the world. It was very clear to me that a major lesson of the last three decades is that those nations that open themselves up to competition – in trade, finance, and investment – have benefited while the rest have been left behind. This personal experience – here and abroad – has made me greatly appreciate the openness of our nation, which has been one of the most important factors in the great economic success of the United States. Openness to trade and competition fuels economic dynamism and innovation, as well as the deployment of new technologies that raise productivity and ultimately our standard of living.”

“The public debate over the long-term structure of the GSEs [*Government-Sponsored Enterprises*] is dramatically changed today – no one any longer doubts the systemic risk these entities posed. It is clear to all that conservatorship is a temporary form, and that returning the GSEs to their pre-conservatorship form is not an option. The debate about the future of Fannie [*Mae*] and Freddie [*Mac*] requires answering the much larger and more important question of the federal government's role in the mortgage market and in housing policy, generally. Given the bubble we have experienced, policymakers must ask what amount of homeownership subsidies are appropriate.”

“Free trade is one of the cornerstones of our economic success as a nation. We must redouble our efforts to demonstrate the benefits of trade to our standard of living – and make clear that retreating to economic isolationism would mean fewer jobs, lower incomes, and lower standards of living in the United States and for hundreds of millions of people around the world.”

The debate about the future of Fannie and Freddie requires answering the much larger and more important question of the federal government's role in the mortgage market and in housing policy, generally. Given the bubble we have experienced, policymakers must ask what amount of homeownership subsidies are appropriate. Numerous long-standing indirect subsidies already exist, including the mortgage interest deduction, subsidized FHA mortgages, and the variety of other HUD programs that expand homeownership opportunities.