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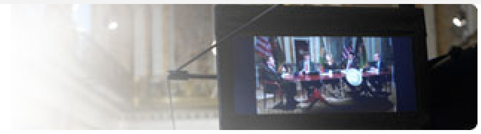

Statement by Secretary Geithner at the G-20 Meeting of Finance Ministers and Central Bank Governors

9/5/2009

Good afternoon. My thanks and compliments to Chancellor Darling and his team for hosting this meeting. The United States looks forward to welcoming the Prime Minister and the Chancellor to Pittsburgh, along with the Leaders and Finance Ministers of the G-20, in just a few weeks.

On April 2, facing the greatest challenge to the world economy in generations, the G-20 gathered here in London and committed to an unprecedented program of policies to restore growth and reform the international financial system. Those actions have pulled the global economy back from the edge of the abyss. The financial system is showing signs of repair. Growth is now underway.

However, we still face significant challenges ahead. Unemployment is unacceptably high. Conditions for a sustained recovery led by private demand are not yet established. The classic errors of economic policy during crises are that governments tend to act too late with insufficient force and then put the brakes on too early. We are not going to repeat those mistakes.

We need to provide sustained support for growth and financial repair until we have in place a strong foundation for recovery. But that strategy will not be effective unless we can make fully credible our commitment to reverse those actions as soon as conditions permit. This means our strategies will need to evolve as we move from crisis response to recovery, from rescuing the economy to repairing and rebuilding the foundation for future growth.

We must lay a foundation for a more balanced and sustainable pattern of future growth, both within and across countries. In the United States, we are going through a necessary and fundamentally healthy transition, raising savings rates and borrowing less from the rest of the world. As this happens, we need to see a complementary shift in countries outside the United States toward stronger domestic demand-led growth.

Alongside this growth imperative, we need to bring greater urgency to the financial reform agenda.

We have broad agreement on a very strong set of principles and objectives for building a more stable global financial system. But we need to move now to put that framework in place. That will require actions at the national level to implement stronger rules of the game, but also more rapid progress internationally in reaching agreement on the details of more rigorous standards that create a more level playing field. In the United States, we are moving forward to legislate reforms designed to protect consumers and investors and create a more stable, more resilient financial system.

These are far reaching and comprehensive reforms, because fundamental change is necessary. The great failure of regulation was the failure to prevent the build up of excess leverage and risk within and alongside the banking system.

Our strategy is to put in place stronger constraints on risk taking across the financial system, to bring comprehensive oversight to key institutions and to critical markets, such as derivatives, to reform the securities markets, and to provide the tools necessary to wind down firms that fail.

The fundamental test of reform is to make the system resilient enough to withstand future storms.

Toward this effort, we outlined here the critical elements of a stronger international capital standard for banks. Our objective is to reach agreement by the end of next year on a new standard that will raise capital and liquidity requirements and dampen rather than amplify future credit and asset price bubbles. Financial activities which present the most risk should have higher capital requirements. And the major globally active financial institutions, those firms that present the greatest risk of systemic crisis, should be held to more demanding standards.

A crucial part of financial reform is to change compensation practices. On February 4 of this year, the President of the United States first outlined a set of proposals to reform compensation practices, both for institutions that receive exceptional financial assistance and for all banks. These proposals were designed to constrain excess risk taking by making sure that compensation is tied to risk and long-term performance. We have proposed, and the House has already passed, legislation to require firms to submit compensation practices to an approval by shareholders. And the Federal Reserve and other bank supervisors will enforce these standards through the supervisory process.

We welcome the support we found here in Europe and among the G-20 for compensation reform as part of comprehensive reform of the financial system. Stronger capital standards are not a substitute for compensation reform. Compensation reform is a necessary part of building a more stable system.

In addition to capital and compensation, more work needs to be done on over-the-counter derivatives and cross-border resolution frameworks.

Another critical part of the reform agenda is building stronger international financial institutions. We must provide the resources and tools necessary to support development and provide insurance against future crises. But this is not just about resources. We need these institutions to play a greater role in preventing future crises, with stronger surveillance by the IMF. We need the multilateral development banks to focus their efforts on the key priorities of fighting poverty, supporting higher productivity in agriculture, building the institutions necessary for private investment and growth, and facilitating the transition to a green economy. And we must reform the institutions' governance structures to better reflect the important role of emerging market and developing economies.

Let me close by saying that, as we look toward the G-20 Summit in Pittsburgh, we need to bring the sense of common purpose and urgency that we demonstrated at the peak of the crisis to the challenges of restoring growth and to reforming the financial system. We have made a lot of progress, but we have a ways to go. We can't let momentum for reform fade as the crisis recedes.

Thank you.

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REPORTS

- G20 Communiqué
- G20 Declaration
- G20 Progress Report