

U.S. DEPARTMENT OF THE TREASURY

Press Center



Press Briefing by Treasury Secretary Tim Geithner on the G20 Meeting Pittsburgh Convention Center

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SECRETARY GEITHNER: A few remarks about what's at stake over the next couple days, what our objectives are, what we hope to accomplish. I'm just going to begin with a few remarks about our objectives, and then I'd be happy to take some questions.

Let me just start by thanking the Governor, the Mayor, the people of Pittsburgh for hosting this important meeting. We're here, of course, because Pittsburgh is such a powerful example of how a city and a region can transform itself into a center of high-tech innovation and manufacturing.

We're meeting at a time where, for the first time since London, certainly for the first time in a year, we're seeing the first signs of optimism about prospects for global recovery. I think the broad consensus of private economists and businesses are that we're beginning to see growth in the United States, and around the world we see exports rising and forecasts for growth are being revised upwards.

This is encouraging, but we have a ways to go. And we are going to keep working to sustain the progress we've seen. And I can say with confidence based on my discussions with finance ministers and central bank governors from around the world, there is a common, shared commitment to make sure we're working together to sustain these early signs of recovery and growth.

Now, it's very important that as we lay a foundation for recovery we don't sow the seeds for future crises. In the run-up to this crisis many of the world's largest economies depended on the American consumer to buy their exports to drive growth, and we made it easy; for too long, Americans were buying too much and saving too little. And that's no longer an option for us or for the rest of the world. And already in the United States you can see the first signs of an important transformation here as Americans save more and as we borrow substantially less from the rest of the world.

And you heard the President outline earlier this week an ambitious program to strengthen growth in the United States by investing in innovation, by making sure we stay at the frontier of innovation in manufacturing and all the industries that would be critical to growth here in the future. He's proposed and starting to implement the largest increase in basic research development in U.S. history. He's proposed very substantial and important initiatives to improve the quality of education, to expand access to higher education, and to promote careers in science technology, engineering, and math. And he's made historic investments in clean energy and in improving energy efficiency. And his judgment is, of course, that those investments are going to be critical to laying a foundation for stronger growth in incomes here in this country.

And as we save more so we can invest more in the United States, the world is going to have to shift sources of growth more towards domestic demand. For the world to grow at the rate it can, we're going to need to see reforms in many countries, to help lay a foundation for, as I said, stronger domestic-led growth.

So we've been working to build consensus on what we call a new framework for balanced growth -- for more sustainable and balanced growth. And we've seen very broad support for that proposal. And the objective of this framework is to make sure that countries come together at an early stage and make sure that the collective policies they are pursuing are not going to lead to unsustainable imbalances; are going to make sure we're less vulnerable to future cycles of booms and busts; that our financial systems are more stable and that we're all growing at a more sustainable, more rapid growth in the future.

Now, in this context, the second key priority, our key objective for the summit is to establish consensus on much stronger standards across our financial systems. We are not going to walk away from the greatest economic crisis since the Great Depression and leave unchanged, and leave in place, the tragic vulnerabilities that caused this crisis.

Now, we have worked very hard at a very early stage in this process in this administration to build consensus on a very strong set of international standards for reform. As you know, the United States -- Congress has a very aggressive schedule to legislate sweeping

changes to our financial system that are going to make -- provide greater protection for consumers and investors, to create a more stable financial system, and to try to make sure that taxpayers are no longer on the hook in the future to bear the burdens of financial crises.

But we can't do this alone. If we continue to allow risk and leverage to migrate where standards are weakest, the entire U.S.-global financial system will be less stable in the future. We need to see competition for stronger standards, not weaker standards; competition in the design of reforms that are going to make the system more stable in the future.

Now, my own sense is we have a strong consensus on the basic framework of objectives, but we worked very hard over the last few weeks and months to get countries to agree to a set of objectives, a timetable, to put these reforms in place. So you're going to see tomorrow not just us reach agreement on the key priorities for reform in strengthening capital standards, in reforming compensation practices, in bringing derivatives markets and hedge funds into an adequate framework of oversight, trying to make sure we have better tools to respond to future financial crises, where you're going to see us lay out more concrete time frames to put those reforms in place.

I think we all recognize that we need to act before the memory of the crisis fades and before the impetus for reform recedes. And we're trying to bring greater urgency and commitment to the need to act together.

Now, to successfully address these two challenges of growth and reform, we need to have the right table around -- the right people around the table. So our third focus, our third objective, important objective here, is to make sure that we reform the framework for cooperation on economic uses around the world in a way that gives greater representation to some of the most important economies in the world today. That's why the G20 has been so effective and is so important, and that's why we need to see complementary shifts at the IMF and the World Bank.

And we're doing this, of course, not because we think it's good to have them around the table, but because we think for those institutions to be effective, for it to have broad support, they need to adequately represent the new balance of economic activity in the global economy. And we need those countries working with us together.

Now, we have a tremendous opportunity in the coming weeks and months to work together to make historic progress in addressing the challenges of climate change. The President is working very closely with countries around the world to try to get agreement on ambitious targets for reducing carbon emissions.

Over the last few weeks, we have worked to build consensus on important new commitments to phase out fossil energy subsidies over time. And I can say today, based on the important work of countries around the table, we're seeing a lot of support for that proposal, and we think this will have a dramatic impact on our collective effort to reduce carbon emissions.

Just to give you an example, estimates by the OECD suggest that if all countries followed the lead of the G20 in agreeing to phase out fossil fuel energy subsidies over the medium term, this would reduce global greenhouse gas emissions by 10 percent by 2050, which is a very substantial down payment on our objective, on the President's objective, to reduce global emissions to 50 percent below 2005 levels by 2050.

Now, this has, of course, profound implications for our national security interests, for the health care -- for the health of our citizens, and for our economies. Reducing energy subsidies will not just reduce our vulnerability to future energy price shocks, it will not just provide substantial reduction in air pollution, which can be so damaging to health, but eliminating hundreds of billions of dollars spent on these subsidies would help promote faster growth and improve our capacity to use the taxpayers' resources more effectively for other priorities.

This set of commitments is going to be an important complement to our continuing efforts in the United States to pass legislation to reduce carbon emissions, and we're looking forward to working with nations of the G20 and other countries to make the Copenhagen summit a success.

Now, finally, let me just say in conclusion that the challenges we face today of course are not confined to our borders. They don't respect national borders. And nor can the solution come from individual countries acting on their own. Financial risk and leverage is going to flow to where the rules are most lax, but the consequences of failure will be felt globally.

To achieve a more stable financial system, we need strong reforms here in this country, but in other countries around the world. If we want more rapid growth here and lower unemployment, we need more rapid growth outside the United States. For American companies to be able to be export -- other countries to buy our exports, when our country exports more goods, employment will rise here. We're in this together. And that's why cooperation in the G20 is so important to the interest of Americans.

Thank you. I'll be happy to take your questions. Yes.

Q Sorry to get off topic on the first question here, but on Iran -- Iran was a big topic at the U.N. this week. How important is this forum for the U.S. effort to put pressure on them? How much will that be a part of discussions? And what specifically are you looking to do here on that?

SECRETARY GEITHNER: You're going to have to talk to my colleagues -- on Iran. But I think you saw -- well, I'll just say anytime people get together -- people get together, they're going to talk about the things that are at the top of the national security agenda. But as I think

my colleagues have said already, I don't think you'd expect Iran itself to be a principal focus of our discussions over the next couple of days.

Yes.

Q Mr. Secretary, do you worry that some of the other nations, though, might look at the recession as having bottomed out and suddenly say, well, everything is okay, we don't need financial reforms?

SECRETARY GEITHNER: I don't -- we can't let that happen. And I think if you listen carefully to what countries are saying, there is very substantial commitment really to try to move quickly and put in place stronger reforms. So I think they recognize the basic imperative of the President to move very early to propose reform, which was that, again, if you wait the risk is that it will be harder to act; you won't accomplish enough.

And so we're trying to move as quickly as possible, because our sense is we'll be able to achieve more if we move early. And again, I think that basic recognition is felt everywhere. And I think if you listen carefully to what people are doing and saying, there's a common appreciation of that imperative.

Yes.

Q -- balancing growth and regulatory reform, what specific mechanisms will the G20 put into place to make sure that these things happen?

SECRETARY GEITHNER: Let me start with financial reform because that's sort of the easier in this case. The important thing is we reach agreement on a clear set of standards that are measurable and enforceable; that countries commit to put in place regulations that will give force to those standards and rules. And then we follow up and we monitor and we assess and we look. And everybody cares about having a level playing field, so everybody has an interest. Once you agree to a strong set of rules, everybody has an interest in making sure that those rules are -- people play by those rules.

And that's the basic strategy that will underpin our approach. So as we reach agreement on new capital standards, capital is central to any credible effort to make a more stable financial system -- capital is the resource that institutions have to hold against the risk of future losses, and there we'll establish a very clear standard and people will be able to see whether countries have put that in place for regulation, and they'll be able to see whether their banks are being held to that standard.

On the broader growth agenda, to be honest it's a harder thing to do, because we're a nation of -- we're a world of sovereign nations, and no country is going to cede sovereignty over fundamental choices about economic policy to consensus of other countries or to a international agency. But what we can do, and what we're trying to do now at a very early stage in this process of recovery, is to get people to agree to the basic imperative that we're not going to get growth strong enough, rapid enough, and sustainable in the future unless we're all reforming together; and that as we save more here so we can invest more here, we need to see countries around the world making changes to shift the pattern of growth to domestic demand. That's going to require a complex set of reforms that are going to have to take place over time.

And the basic premise is the same thing, though, you want to have the IMF come in and assess how we're doing and where you see early signs of unsustainable imbalances emerging, you want to try to make it compelling to countries to act earlier to address those, not let them build up, not wait. So you want to try to get policy to be ahead of the curve in the future, not constantly behind trying to catch up. That's the basic objective we're trying to bring about.

Yes.

Q Mr. Secretary, on the framework you just discussed, how confident are you that you will leave here in Pittsburgh with a commitment from all the G20 nations to support this framework, including China?

SECRETARY GEITHNER: Again, as I said, my sense is from my conversation with my colleagues is there's very strong support for this. The question was how confident am I that we're going to leave Pittsburgh with agreement among all the G20 countries to this framework, including China. I just had the privilege of meeting with my counterpart, the Vice Premier of China. And if you saw what we did with China together at the meeting of the Strategic and Economic Dialogue in Washington in July, you saw us put in place the foundation of this agreement. And that's what's made it possible really, frankly, for us to bring the rest of the G20 on to that same basic framework. So I think -- again, my sense is that we have a lot of support for this, and I think we're encouraged by that.

Yes.

Q You went through the same process, Mr. Secretary, with Japan in the '80s, when the effort was to get them to pick up domestic demand to ratify imbalances, correct imbalances. What are the lessons from that which -- a transition that happened very slowly, and what in your discussions with the Chinese makes you think that they are moving away from a model of export-led growth? Because all the early numbers from them seem to indicate it's pretty export-strong the past few months.

SECRETARY GEITHNER: Well, let me just start where you ended. Actually, if you look at what's happened in China, there's been a very, very substantial effort -- similar to what we've done here -- to provide very substantial support, financial fiscal measures to promote recovery. And if you look at the composition of growth so far, their current account surplus, their trade surplus is coming down and domestic demand is getting stronger. And that's a good sign of the shift.

But much more important than that, if you look at what China has committed to, to its own citizens in terms of the broad direction of reform, you're seeing them commit to financial reforms that are critical to this shift away from exports and heavy investment to domestic-led growth. You're seeing them proposing reforms to help strengthen the safety net to reduce the incentive for precautionary savings by strengthening health care reform, putting in place basic social security protections. And you're seeing them trying to shift again the balance of investment away from heavy industry. And those are encouraging signs of commitment.

And China, frankly, if you look at what's happened in China over the last 30 years, they have an exceptionally good record of committing to very substantial changes and reform, acting on those commitments, and delivering them. And these are -- only happen and only work when it's in the interests of the country to pursue them.

So I think if you look what they've said and you see what they've laid out, you can see that these commitments are credible, and that's what makes us more optimistic, frankly, that the support we hear for this framework is going to matter.

I should move over here, yes.

Q Mr. Secretary, on your third piece, on the framework for the representation on the IMF and the World Bank, the Europeans said today that they are opposed to what the United States is proposing. And I'm wondering how you respond to them now that they're on record saying they don't like it. And another one on the

SECRETARY GEITHNER: Let me just start there and I'll let you finish your thing. Look, this is a necessary shift. I don't think there's anybody who would not believe this is the necessary appropriate shift in the basic balance of representation in these institutions. I think Europe recognizes that. And what we're trying to do is to bridge this difference between a number of nations in Europe that are going to, of course, have to adjust over time given the change of balance of activity in the world and have that shift occur to those countries who have been for a substantial period of time among the most rapidly growing countries in the world.

And I think the Europeans actually recognize that shift is going to happen. It's the right thing to do, and it's going to happen. What we're trying to do is have it happen in way that's going to be sensible for the institutions.

I think you're able to see, again -- I'm laying out our objectives and our expectations, but my expectation is you're going to see all those countries come together and agree that the shift needs to be very substantial and -- but we set up in London a target for the end of 2010, effectively, January 2011 -- to reach the final details on the elements of the reform of the governing structure of those institutions. So we're trying to do this in stages and, again, my sense is we're going to make substantial progress here today.

Yes.

Q One on financial regulation and one on the economy. One of the unresolved questions in London was how do you measure who enforces for whatever this regulatory framework is. Have you resolved that? What do you know about that? What can we expect to see?

Secondly, on the U.S. economy, when you say Americans are now saving more, do you consider that something that's a response to the recession, or a fundamental shift that's going to change the way the American economy functions and how it integrates in the global economy?

SECRETARY GEITHNER: I think -- I'll start with savings -- I think it's a fundamental shift and I think it's a healthy and necessary shift. And I think it's an encouraging sign that after a long period of time when we were living within our means, you're seeing changes in behavior to recognize that we need to go back to -- did I say "living within our means"? -- a long period of time living beyond our means, you see people already changing behavior out of the recognition that we have to go back to living within our means. And the government of course is going to say you have to save more over time, too.

And I think, again, this is a necessary, healthy transition. It's going to allow us to have a more healthy pattern of growth in the future; allow us to finance the investments we need to support future innovation. And one of the great strengths of this country is that we adjust quickly, we move quickly. When these changes have to happen, they happen with great speed. And I think that's one reason why we can stand here today and express some measured optimism about our capacity to put in place a more sustainable recovery.

Now, on financial reform, your question was how are we going to give it force? Again, the basic architectures say that you commit to standards that are measurable, like a capital requirement, just as an example, and governments commit to put in place the laws and regulations, supervisory measures to give those standards force. We sit together -- countries sit together around this important institution called the Financial Stability Board, and a bunch of committees underneath that, to assess progress.

And, again, the basic strategy is a simple strategy. You get countries to agree to raise the standards, to commit to a level playing field, and then you have a huge interest in all countries in holding each other accountable to hold their institutions to that same standard, because they all know that if anybody tries to compete by lowering those standards, it would be adverse to their interests. That's the basic dynamic.

So the important thing we did in London, and you're going to see substantial additional progress here today, is to add, in effect, a fourth pillar to the architecture of cooperation we established after the second world war. After the second world war, we came together and

established the IMF, the World Bank, the GATT which became the WTO. But the Financial Stability Board is, in effect, a fourth pillar of that architecture. And that forum, just for those of you who are not familiar with it, again brings together central banks, finance ministers, supervisors of banks, market regulators like the SEC and the CFTC, the accounting standard setters -- brings them together and tries to forge consensus on standards, so we can have, again, common standards applied globally.

Yes.

Q Mr. Secretary, on the fossil fuel subsidies, how would you react to Republicans who might criticize you for saying you're hurting America's energy independence, or potentially hurting America's energy independence with such a move?

SECRETARY GEITHNER: I'm not a politician. But our judgment is, and I think the judgment of the people who are responsible for designing energy policy in the United States are that these commitments are helpful in helping reduce our ultimate dependence on foreign sources of energy. No conflict between them, and that's their judgment. I think that judgment is right.

Q Can you tell us how often your colleagues from other countries have brought up the sort of disparate ideas that have been put forth on new financial regulation in the United States? In other words, comments that, say, Senator Dodd has made, other members of Congress -- have any of your colleagues brought that up? And what do you tell them about the debate taking place in Washington about how this regulatory reform should actually be carried out in our country?

SECRETARY GEITHNER: Well, actually, we're at an enviable position, because I think that -- well, I think it's just -- it's true that we moved earlier to begin this process. We're I think much further along than any country in laying out a comprehensive framework of reform. And we are I think much further along to making sure that we have the legislative consensus in place to give that force.

I think you heard from the chairmen, both Chairman Dodd and Chairman Frank this week, their commitment to move this forward. And they tell me, and I think they've said publicly, that they're actually quite optimistic they're going to find a way to do that. So I think we're in a very good position to lead by example, and to reinforce the impetus for progress in other countries around the world. And we're welcome to see them move with us.

Of course, Congress has to legislate, and this is a complicated process and we want to get it right. But that's what I'd say to them. And I think they recognize that, again. And, again, we're trying to do what is in the interest of the United States. We're trying to set the agenda early because we think our interests are very much in trying to make sure that we get the world to come with us and agree on what the future shape of the financial system should be. And as I said, we're very encouraged by the progress we've seen.

If you read carefully the consensus not just reached in London but what you'll see in the reports issued tomorrow, there is very, very broad support from a very diverse range of countries for the core things that we first set out in February and March of this year.

Yes.

Q Mr. Secretary, the dollar is getting weaker and weaker. First of all, how worried are you about that development, and how worried are you that other countries are creating -- like Russia other baskets of currencies? And how will you get rid at the government level of the debt, the huge debt that's been --

SECRETARY GEITHNER: Let me start here, and I'll just say what I will always say on any question anyone asks me about exchange rate developments and the dollar. A strong dollar is very important in the United States. We have a special responsibility here in the United States to make sure we are doing the things in this country to preserve confidence in the U.S. financial system, confidence that's very important to sustain the dollar's role as the principal reserve currency in the international financial system. And we expect, as I think countries around the world expect, the dollar to retain that position for a very long time.

Now, we are committed, and you have heard the President say how important it is to our economic future to make sure that as we get recovery in place, we are taking steps to bring down our fiscal deficit to a sustainable level, and that we are unwinding and reversing the extraordinary actions we were forced to take to help fix this financial system and resolve this crisis.

And if you watched what we said in the United States over the last few weeks, you've seen that we have already moved to unwind and reduce many of the emergency financial measures we were forced to take again to fix the crisis. And we are already having to borrow substantially less than we anticipated to help solve this financial crisis. And we are going to of course leave those programs in place until we are very confident we have a financial system that can provide the credit recovery needs. But we're also going to make sure that people understand that we're going to reverse these actions as soon as it's prudent to do so.

Yes.

Q In the past week, there seemed to be disagreements between the French and the Americans about the bonuses. Can you --

SECRETARY GEITHNER: I've heard that and I've read that perception, but we actually are very close and I believe we're in the same place. And let me just describe the objectives that form that common approach.

Again, we want to have very strong standards to limit the risk that compensation practices in the world's largest institutions encourage excessive risk-taking lead to the huge increase in leverage and risk we saw in this crisis. So we've laid out -- and you'll see tomorrow -- a really far-reaching set of pretty detailed standards to underscore that commitment. But we've also made it clear that we are going to move

in each country to put in place the mix of regulations, laws, supervisory measures, that are necessary to give those standards force. We're going to measure progress against those standards, report on progress, and we're going to let an independent agency -- in this case, the Financial Stability Board -- assess progress against those standards.

And let me just say one thing that's very important. We don't want to see these reforms take effect two years from now, we don't want to see them take effect next year -- we want them to take effect now so they affect compensation practice today, not tomorrow, and that they bring about reforms in compensation by the end of this calendar year.

So that's the basic outline of the consensus we reached.
Thank you all very much.

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5:29 P.M. EDT

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