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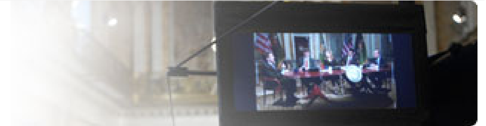

Remarks by Assistant Secretary Charles Collyns on “The Transatlantic Relationship and the G-20”

1/20/2011
The German Marshall Fund of the United States
As Prepared for Delivery

I would like to start by expressing my gratitude to the German Marshall Fund and to Bruegel for hosting this event and inviting me to speak on the topic of the Transatlantic Relationship and the G-20. This is the third occasion in my time at Treasury that I have benefited from the hospitality of these two fine European institutions, and the high level of discussion at their events has consistently impressed me. They are both making a substantial contribution to the quality of transatlantic dialogue and to the level of mutual understanding between the United States and Europe.

Commentators on both sides of the Atlantic sometimes harp on alleged policy differences between the United States and our colleagues in Europe. This is not the reality. The last two years have witnessed intense and productive policy coordination and cooperation between Europe and the United States as we have worked hard together to turn around our economies after a deeply damaging financial crisis. Where we have disagreed, the differences have largely been in emphasis and tactics rather than in goals or strategic direction. The Transatlantic Relationship remains healthy and robust.

What has certainly changed is that the dynamic emerging economic powers have earned a seat at the table where major policy matters are discussed. Thus, the G-20 has replaced the G-7 as the premier forum for international policy coordination. And the G-20 has been hugely successful in galvanizing a powerful joint response to the crisis at the global level, indeed the most powerful stimulus in history. But the central role of the G20 and the arrival of new players in no way diminish the importance of the transatlantic partnership between the United States and Europe. Together, the United States and the European Union account for around half of global output and world trade. We share vital interests and the decisions we make together will be critical in determining the future course of the global economy.

We in the United States look forward to the French Presidency of the 2011 G-20 Summit. We share a strong common sense that the G-20’s work is far from done, and a commitment to building on what has been achieved through the spirit of cooperation. The global economy is now well on the road to recovery, but many difficult issues remain to be addressed to ensure strong, sustained and balanced global growth. This will not be easy because there are considerable differences across countries’ economic conditions and prospects—in contrast to the situation three years ago when we all faced the perils of the crisis together.

In my brief remarks this lunchtime, let me touch on four key challenges that Europe and the United States must face together and with our G-20 partners. ***First, we must ensure that the global recovery now underway is sustained and gathers strength***. Recent global growth has been impressive—almost at pre-crisis rates. But it is uneven and fragile. Much of the emerging world is growing fast, but is now contending with rising inflation, strong capital inflows, and signs of overheating. In contrast, the recession was much deeper in advanced countries, and the subsequent recovery has been gradual.

The U.S. economy is growing again, but despite recent improvements, unemployment remains unacceptably high. The passage of the Tax Relief Act last month was therefore important to deliver a strong boost to the economy in 2011 and 2012 by ensuring that American middle class families don’t see their taxes increase and by providing strong incentives for businesses to invest and create jobs.

Most of Europe is also recovering, most impressively the German economy. But the situation in the periphery of the Eurozone remains a worrying source of fragility that could have damaging spillovers within and beyond Europe’s boundaries. The periphery countries lived beyond their means for many years, supported by financial flows from elsewhere in the currency union. Since the onset of the crisis, periphery countries have needed to undertake deep and painful reforms, to contain deficits and restore competitiveness. At the same time, European governments have put in place facilities to provide large scale financing support for these difficult adjustments. The United States has strongly supported these efforts including through IMF programs in Greece and Ireland. We continue to engage with our European partners as they forge a comprehensive solution to the periphery debt crisis. We are particularly encouraged by the commitments at the Ecofin meeting earlier this week that European banks will be subjected to a new, more transparent round of stress tests and that Europe’s financial support mechanism will be strengthen further.

The second global challenge that we must face together is to ensure an orderly, growth-supporting rebalancing of the world economy. In the years leading up to the crisis, the United States served as the world’s consumer of last resort. Our strong domestic demand was fueled by a falling savings rate amid rapid increases in asset prices. On the other side, many surplus countries relied on export-led growth strategies that neglected their own domestic demand in favor of sales to the U.S. market. The crisis proved beyond any doubt that this situation was unsustainable.

The United States has already started the necessary process of adjustment. We have already seen a very significant increase in private savings by households as they repair their balance sheets after heavy losses of wealth. And we must restore fiscal responsibility. Along with the G-20 leaders, the President has committed to cutting the fiscal deficit in half by 2013, and to stabilizing the debt-to-GDP ratio by 2016. This will require the government to curb spending, so that we can afford to make the investments that are critical to future growth. And it will require tax reform that produces a system that is more simple and more fair, geared to encouraging growth and investment.

Other nations must also undertake the difficult reforms required to rebalance global growth as well as to strengthen their own economies. As America saves more, the world will grow more slowly unless domestic demand rises vigorously elsewhere. This means that major emerging economies with persistent current account surpluses need to reduce their reliance on export-led growth and shift their economic strategy towards domestic consumption and investment. This will require policy reforms to encourage robust growth of domestic demand combined with a greater willingness to allow exchange rates to move flexibly, notably in China but also elsewhere.

The issue of imbalances is also very relevant within Europe. Europe as a whole was in external balance before the crisis. But this external balance masked large internal imbalances. Germany ran large current account surpluses, as low wage growth held down consumer demand, while the countries of the Euro area periphery ran large deficits. The painful adjustment by the periphery countries will be easier to sustain if it is accompanied by sustained increases in domestic demand in the surplus countries within Europe. Recent German private consumption data have shown encouraging signs that this may now be happening, as impressive export performance and strong business confidence is beginning to

feed through into higher incomes and greater consumer optimism. And it is encouraging and appropriate that a core component of the current drive to overhaul the policy framework in the Euro area aims at putting in place an effective mechanism to encourage more symmetric surveillance of current account surpluses as well as deficits within Europe to reduce risks of destabilizing imbalances in the future.

The G-20 has a critical role to play in monitoring and coordinating the process of rebalancing at the global level. At the November Summit in Seoul, the G-20 Leaders called on their governments to agree on a set of quantitative indicators to identify persistently large imbalances in need of preventive and corrective action. The next stage, to be complete by the end of the year, will be to identify which countries are running persistently large imbalances, examine the driving forces and root causes behind the imbalances, and develop corrective measures. The United States will fully support the French G-20 presidency, as it takes on the heavy and necessary burden of making this process work.

This leads me to a third and related major challenge facing the G20, to continue our work to ensure the smooth functioning of the international monetary system consistent with global stability. It will be important for the currencies of all the major trading countries to move flexibly to facilitate global adjustment and to reduce the asymmetric bias in which adjustment pressure is focused on deficit and not surplus countries. This issue has gained in importance as emerging economies, notably China, have grown rapidly and account for a rising share of global trade and activity. China still closely manages the level of its exchange rate and restricts the ability of capital to move in and out of the country. These policies have the effect of keeping the Chinese currency substantially undervalued. They also impose heavy costs on other emerging economies that run more flexible exchange rates. With capital unable to flow into China, money has been surging into other emerging economies, leading to an appreciation of their exchange rates and a substantial loss of competitiveness against China.

We should also consider sensible policy approaches for countries facing surges in capital inflows, balancing the need to ensure external and internal stability while avoiding damaging cross-country spillovers. Importantly, this effort should differentiate between countries with undervalued currencies, where greater flexibility is paramount, and overvalued currencies facing undue burdens of adjustment. There is also room for more thinking about whether there are additional steps that could be taken to strengthen global financial safety nets, building on recent reforms at the IMF to provide an array of lending facilities that countries can rely on in the event of a sudden loss of market access as took place in 2008. For example, further progress can be made to build linkages between the IMF and regional financing arrangements, learning from the recent experience in Europe, although the IMF must never compromise on its lending standards or conditionality.

Finally, this year, the G-20 should promote further progress on financial reform. We have already made considerable progress, as we have worked hard together at the G-20, along with the Financial Stability Board and standard setting bodies, to strengthen global financial regulation and supervision to address the weaknesses that contributed to such a devastating financial crisis. Last year’s agreement to strengthen the quality and quantity of bank capital, build stronger liquidity buffers, and establish a mandatory leverage ratio represented a watershed event for international regulatory reform. And in the United States, the Dodd-Frank Act provided a comprehensive overhaul of our domestic financial regulation that goes well beyond what has yet been achieved elsewhere. A priority this year for the G-20 is to ensure that continued progress is made in the approach to complex, globally active and systemically important financial institutions – tackling the problem of “too big to fail”, so that tax payers are never again called upon to pay for the financial sector’s mistakes. In this respect, it will be important work carefully with G-20 partners to ensure strong supervision, robust levels of capital, and effective resolution regimes. It will also be important to examine the risk of regulatory arbitrage through the so-called “shadow banking system” and to take firm action to ensure transparent and well-functioning commodities markets to reduce risks of excessive commodity price volatility. In these areas, the Dodd-Frank legislation has put the United States clearly in the forefront of reform efforts.

In conclusion, this G-20 agenda – ensuring sustained growth, promoting global rebalancing, improving the functioning of the international monetary system, and continuing the global financial reform – is ambitious, but it is also vitally important for the health of the US and European economies. A robust transatlantic relationship is crucial as we face these challenges together and pursue our common interests. We look forward to working closely with the French G-20 presidency and with our European partners more broadly as we work to forge the global consensus in favor of cooperative, growth-supportive economic policies.