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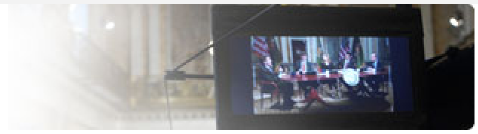

Remarks by Deputy Assistant Secretary Mark Sobel at the Woodrow Wilson Center on Mexico and the G-20 Leader’s Summit

5/1/2012

As prepared for delivery

WASHINGTON - I thank the Woodrow Wilson Center for the opportunity to share our thoughts on Mexico’s G-20 agenda and the upcoming Summit.

Today, I would like to address two issues: first, a Treasury perspective on the financial agenda heading into Los Cabos; and second, with the Summit approaching, recent questions from some think tank and academic quarters about the G-20’s relevance.

El Camino a Los Cabos

In the financial sphere, three topics will dominate the Los Cabos agenda – the global economy; reform of the international financial institutions (IFIs); and strengthening the international financial regulatory agenda.

Clearly, how to strengthen global economic growth will be the top priority. After some stalling in momentum in 2011 and serious financial stress late last year, the outlook has improved. But the recovery remains fragile, facing continued downside risks. Many advanced economies are still struggling to recoup output lost during the crisis. A healthy recovery requires faster growth and job creation, and a careful balance between growth and sustainable fiscal policy, central bank support and structural reform. Strong implementation of G-20 commitments is needed and we look forward to the Los Cabos Action Plan.

The U.S. economy continues to gather strength despite higher oil prices. U.S. growth has averaged about 2-1/2 percent since the recovery began, and the economy has added private sector jobs for 25 straight months, totaling 4.1 million jobs. The business sector’s balance sheet is stronger. Household debt to income has come down significantly and U.S. financial sector debt has decreased. Reflecting early action on repair and reform, U.S. banks are strongly capitalized, improving confidence and facilitating an expansion in credit to the private sector.

While the economy is gradually firming, the financial crisis put our economy in a deep hole and it will take time to fully repair the damage. Unemployment remains high, the housing market remains weak, and growth is not as fast as we would like. The Administration has laid out a blueprint that proposes action to support growth in the short-term so as not to jeopardize the economic gains of the last three years.

Alongside measures to support growth, the President has also outlined a balanced approach to address our formidable long-term fiscal problem. Including legislation signed into law last year, this approach would reduce the deficit by more than $4 trillion over the next decade, cutting the deficit in half as a share of the economy and helping to put our nation’s finances on a sustainable course.

Euro area fragility remains a key risk to our recovery and the global economy, as recent market volatility reminds us.

Europe’s leaders have taken important action in recent months to strengthen their crisis response, reduce financial stress, and lay the foundations for greater stability. They have bolstered the firewall to guard against further emergency financing needs from euro area members; successfully extended large amounts of liquidity and implemented an accommodative monetary policy; and strengthened fiscal compacts. Euro-zone members are adopting tough reforms. The success of the next phase of the crisis response will hinge on Europe’s willingness and ability to apply its tools and processes creatively, flexibly and aggressively to support countries as they implement reforms and stay ahead of markets, and to provide confidence to markets and the public that the political resolve is there to surmount the problems in the euro area and preserve a lasting monetary union.

This will require sustained efforts in the presence of many challenges. How will Europe balance fiscal austerity in some countries with the need to spur growth, avoiding counter-cyclical fiscal policy at the European level and a downward spiral of austerity? Will countries with fiscal space let automatic stabilizers work, supporting euro area growth? Will Europe create fiscal institutions to match the depth of monetary integration? Will Europe implement structural reforms essential for growth? Will efforts be intensified to strengthen supervision and regulation and support bank restructuring and recapitalization at the European level? How will Europe address its internal current account imbalances?

Oil prices also present a risk to global growth. Over the past few weeks, crude oil prices have fallen and global oil inventories are rising. But we must remain vigilant to the risks of supply disruptions and their economic impact.

Beyond the near-term challenges facing Leaders at Los Cabos, the G20 cannot lose sight of the need to put in place policies for a better-balanced global economy, pursuant to the Pittsburgh Summit Framework for Strong, Sustainable and Balanced Growth. Current account surpluses and deficits are down from pre-crisis levels, but much of the decline is cyclical and further action is needed to guard against unsustainable imbalances re-emerging.

As current account deficit countries such as the United States work to raise domestic savings, the global economy and job creation are being hindered by insufficient aggregate demand. We need to see stronger acceleration of growth in domestic demand in current account surplus economies, such as in Germany and in emerging Asia, supported by greater exchange rate flexibility in countries such as China.

Turning to the IFIs, further progress has been made this year with the conclusion of the recent agreement to mobilize an additional $430 billion in bilateral resources for the IMF. While these resources will be available to all IMF members, the additional funding will provide an important complement to Europe’s recently-bolstered firewall if further emergency assistance is needed for euro area members.

At the recent G-20 ministerial, Ministers also focused on strengthening IMF surveillance. The key to strong surveillance is high-quality, thorough and transparent analysis, effectively integrating bilateral and multilateral activities and examining the full range of policies. But it is crucial to remember that the Fund was created against the backdrop of the beggar-thy-neighbor currency policies of the 1930s and that rigorous surveillance of exchange rate policies must remain at the core of the Fund’s global mandate.

Important discussions will also take place for the rest of the year on how to bolster the relative economic weight of dynamic emerging markets, such as Mexico, in the IMF.

We also look forward to further progress on the international financial regulatory reform agenda. This successful agenda is now transitioning from design to implementation. This year in the G-20, we are emphasizing progress on:

- Implementation of new capital rules, particularly on ensuring consistent definitions of capital and measurement of risk-weighted assets across jurisdictions;
- Strengthening cross-border resolution regimes, ensuring that recovery and resolution plans are in place for globally systemic institutions;
- Aligning rules and regulations on trading, clearing and reporting of standardized OTC derivative contracts;
- Promoting international agreement on global margins on uncleared derivatives trades and creating a legal entity identifier system for financial contracts, a new global standard that will help us understand and monitor systemic risk.
- Advancing progress on better understanding the risks posed by the “shadow banking” system where credit intermediation occurs outside the regulated banking system and providing recommendations to limit those risks, as necessary.

Is the G-20 Still Relevant?

While this substantial work is being undertaken, some analysts are raising questions – is there a G-Zero, is the G-20 still relevant, is the G-20 succeeding? In posing such questions, it is critical to stipulate the standard by which the G-20 is being assessed. Some lament the absence of global governance; some lament “national interests” being placed ahead of “global interests”; some might prefer a more concentrated international order.

The reality is that we live in a world of nation-states with economic weight now more widely dispersed, and a world of interdependencies and spillovers necessitating cooperation among nations. And there is, of course, complexity in greater numbers.

Still, when the G-20 came together in Washington and London, the world faced a deep crisis, common to all, that threatened to turn into a global depression. This was not just a crisis that major advanced economies alone could tackle. Facing severe global economic hardship, G-20 countries all had an interest in doing whatever it took to prevent a dangerous, synchronized global fall in economic activity.

With recovery, G-20 countries now face differing economic conditions, and policies need to be tailored to individual circumstances. Some countries are in surplus; others in deficit. Some have fiscal space; others do not. Some are concerned about overheating; others face output gaps.

The G-20’s strategy to promote global rebalancing is embodied in the Pittsburgh Summit Framework for Strong, Sustainable and Balanced Growth. As I noted, this Framework emphasizes the roles and responsibilities of surplus and deficit countries. As we all know, the formulation of economic policy takes place against the backdrop of domestic realities. Nonetheless, the ongoing mutual assessment process built around the Framework has heightened policy-makers attention to the policies they must promote to foster greater balance in the global economy. It is a critical exercise in international “peer pressure”, reminding countries of the international ramifications of their domestic actions, and unlike G-7 multilateral surveillance exercises, it is being done at the Leaders’ level.

At Pittsburgh, the G-20 was designated the premier forum for international economic and financial cooperation, transforming the G-7 oriented architecture of past decades. Other facets of the architecture were also modernized.

Through two rounds of quota reforms at the IMF over the last decade, strongly backed by the United States, dynamic emerging market economies are seeing their weights in the Fund increase substantially. At Pittsburgh, the United States led the effort to shift at least 5 percentage points in quota shares to dynamic emerging markets. At Seoul, the United States helped secure an agreement by which advanced European economies committed to decrease their IMF Board representation by two seats. There is now a clear international consensus that the weights of dynamic emerging markets in the Fund should continue to rise in the future.

The Financial Stability Forum was transformed into the Financial Stability Board, with all G-20 members joining. Standard setting bodies such as the Basel Committee also expanded to include the G-20. With key emerging markets joining the FSB, the scope of international financial regulatory standards now encompasses the globe.

The international financial regulatory agenda has made major strides. G-20 Leaders and Finance Ministers, working through the FSB, have helped shape the reform agenda and timelines, while respecting the independence of standard setting bodies. In past years, the G20 agreed on the broad principles and objectives for international financial regulatory reform – such as raising the quantity and quality of capital, increasing the transparency of OTC derivatives markets, extending the perimeter of regulation. Already, this agenda is well in train, as evidenced by agreements such as Basel III.

While current FSB work is not headline grabbing, efforts to align nitty gritty regulatory policies are ongoing and advancing, precisely because the G20 early on agreed to put in place high quality standards in an internationally consistent manner and avoid a race to the bottom. There can be no doubt -- the global financial system is now more resilient and less dangerous.

Conclusion

The financial agenda at the heart of the G-20 is substantial and meaty. While the climate for advancing this agenda now is different and more complex than in 2008-2009, G-20 cooperation continues to progress.

It would not be realistic to expect that participation in any "G" grouping would trump national interests. Nor would it be realistic to think the G-20 would displace other channels for cooperation, such as informal G-7 discussions, BRIC gatherings, U.S.-China bilateral discussions and the like. Still, the G-20 led financial architecture continues to evolve, helping facilitate rebalancing, better aligning the voice of dynamic countries with their growing weight in the world economy, and strengthening financial regulatory reform.

There is critical work to be done in Los Cabos and over the remainder of the Mexican Presidency. Mexico is successfully managing and advancing the reform agenda and this is testimony to the excellence of its officials.

Adel

ante a Los Cabos.

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