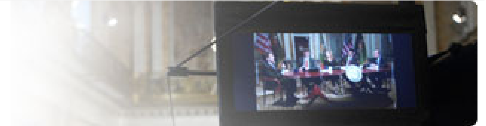

Remarks Of Under Secretary For International Affairs Lael Brainard At The 2013 Annual Economic Policy Conference Of The National Association For Business Economics (Nabe)

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WASHINGTON – Global growth is still weak and vulnerable to the downside. We need to do more to strengthen global demand and rebalance the pattern of growth globally. The largest economies need to make sure their growth and exchange rate frameworks are mutually reinforcing so we grow together

United States

Latest data confirm the United States continues growing more strongly than most other advanced economies, although the pace of job creation is not as fast as we want to see. Private sector activity has now expanded for 14 consecutive quarters. The private sector has been adding jobs for 35 straight months now, for over 6.1 million jobs in total.

We remain committed to a balanced approach for deficit reduction that delivers on debt sustainability while giving the private sector the support it needs to invest and create jobs.

Over the past 3 years, the U.S. has managed this balance relatively effectively, reducing the deficit by an average of more than 1 percentage point of GDP per year, while at the same time protecting the recovery. According to new CBO projections, the deficit as a share of GDP this fiscal year is projected to decline to roughly half the share in 2009.

But we remain concerned the sequester is a blunt instrument. Last Friday, $85 billion in spending cuts went into effect for the FY2013 budget year with $110 billion in annual cuts for eight years thereafter. Estimates suggest that a full sequester would reduce 2013 GDP growth by 0.5 percentage point. Over the next few weeks the middle class will begin to feel real pain. That's why we can't cut too deeply too soon or withdraw needed support for growth and job creation. We must reduce the deficit, but with a smarter and more balanced approach to protect growth and avoid needless harm as President Obama has laid out.

We are seeing growth in housing, energy, manufacturing, agriculture and services – across the board. U.S. energy costs have fallen, and companies are once again looking to the United States as the premier destination for investment.

With US competitiveness resurgent, this is a critical window to amplify opportunities for our businesses, workers, and farmers through new international trade agreements.

Since the earliest days of 2009, trade has been an important engine for U.S. economic and job growth. The ambitious trade agenda laid out by the President last month is designed to position our businesses for advantage in the robust growth markets of emerging Asia and Latin America, capitalize on America's resurgence in manufacturing and strong competitive edge in services, and take advantage of the structural reform agendas in Europe to drive trade liberalization.

The ongoing Trans-Pacific Partnership (TPP) negotiations are of central importance. We are seeking to have the TPP address a range of new issues, such as regulatory transparency and coherence, the behavior of state-owned enterprises, the challenges faced by small- and medium-sized enterprises in their efforts to penetrate global markets, and other behind-the-border obstacles to trade and investment. The TPP should be a "living agreement" so that other economies willing to take on the high-standard TPP obligations could join.

Earlier this year the President announced his intention to join 20 other like-minded partners in launching negotiations toward an ambitious International Services Agreement (ISA) to remove impediments to services exports and boost U.S. growth and jobs. This capitalizes on our strong position as the world's premier services exporter.

And the President's announcement of his intention to launch negotiations on a comprehensive Transatlantic Trade and Investment Partnership (TTIP) would boost economic growth in the world's 2 largest economic areas and add to the over 13 million American and European jobs already supported by transatlantic trade and investment. We intend to tackle the non-tariff barriers that impede the flow of goods and services, including differences in our regulatory and standards regimes, strengthen rules-based investment to grow the world's largest investment relationship, and enhance cooperation on the development of rules and principles on issues of global concern.

Europe

Europe continues to navigate a challenging path of fiscal and financial reforms. It was very significant when we saw the European Central Bank and Euro Area governments join together in support of a strategy to ensure countries undertaking reforms retain access to market financing and assure banks have access to liquidity and hold credible capital. The ECB's commitment to Outright Monetary Transactions and the pooling of fiscal resources through the European Stability Mechanism provide important financial tools to protect reforms and limit contagion. We welcome proposals to put in place a single supervisory mechanism and banking union. These are important steps forward, and we urge Europe to follow through.

Discussions on government formation are underway in Italy, which has been an important participant as the Euro Area has forged ahead on its strategy of supporting reforms and deepening banking integration. Our European partners need to continue to build on the stability they have achieved so far while addressing rising unemployment. It remains critical to reinvigorate demand growth and facilitate internal rebalancing in the euro area. Not only do deficit countries have important responsibilities in this regard, so do large surplus economies.

China

At the National People's Congress (NPC) which convenes this week, China will name a new group of senior government officials and begin to lay out the themes and initiatives that will define the administration of President Xi Jinping. We look forward to the conclusion of the NPC and beginning work on the next phase of our engagement.

China's current account surplus has fallen from 10 percent of GDP at the peak to under 3 percent today, and the exchange rate has appreciated by 16 percent against the dollar in real terms since June of 2010. Household income growth outpaced GDP growth in 2012.

But the rise in commodity prices and the slowdown in global growth have driven much of this adjustment in external imbalances.

China will need to do more than continue meeting rising expectations inside China, and at the same time bring China's conduct in the global trade and financial system more into alignment with international expectations.

More progress is needed on structural reform. To achieve a durable shift to sustainable consumption-led growth, it will be important that China reinvigorate the move to market determination of the exchange rate and interest rates.

Rebalancing

In the immediate aftermath of the worst crisis in generations, a crisis preceded by persistent imbalances that contributed to the buildup of financial vulnerabilities, the G-20 countries came together to reverse the decline in activity, begin the process of financial reform and repair, and ward off the risk of protectionism. Emerging market economies were brought into the process of global economic coordination as full partners.

Progress has been made over the last four years, but there is still more to do to create an adjustment process that works globally. Growth will not be resilient or sustainable if there is a return to the pre-crisis patterns of global demand growth. Policies in all countries need to work together to advance the G-20 goal of strong, sustainable and balanced growth.

Adjustment thus far has relied too heavily on compressed demand in deficit economies. In the absence of offsetting demand growth from surplus economies, overall global growth will remain weak.

Finance ministers and central bank governors have started the challenging work of reaching agreement on how to bring exchange rate frameworks into better alignment globally to avoid a downward spiral of "beggar thy neighbor" policies and ensure that growth strategies are mutually reinforcing.

Prior to the crisis, some large emerging economies intervened in the market to hold their exchange rates at undervalued levels, supporting an export-led growth model. These policies did not support a mutually reinforcing process of global growth. They put too much of the burden for global demand on consumption and residential investment in some of the advanced economies.

And overreliance on manufacturing exports and heavy industry in many emerging economies inevitably resulted in under-development of services sectors and underinvestment in the social safety nets needed to generate strong household.

Even in the aftermath of the crisis, with demand in advanced economies projected to remain weak, some G-20 members still run tightly managed exchange rate regimes with extensive capital controls. Such exchange rate regimes intensify the risk of inflation and asset bubbles in those emerging economies with undervalued exchange rates. They put an undue burden of adjustment on those emerging economies with market exchange rates and contribute to the weakness of demand in the advanced economies. The managed exchange rates regimes of some of the most systemically significant emerging market economies and the market based monetary and exchange rate frameworks of the world's reserve currencies create inevitable tensions that fuel protectionist pressures.

With global growth weak, it is vitally important that the growth strategies in the world's largest economies be mutually compatible.

The G-7 countries recently reaffirmed their strong commitment to rules of the game on exchange rates. The G-7 pledged that exchange rates should float freely, except in rare circumstances where excess volatility or disorderly movements might warrant cooperation. In

addition, the G-7 members committed to avoid targeting exchange rates and to orient domestic monetary and fiscal policy toward meeting domestic objectives, using only domestic instruments.

All G-7 countries must adhere to these commitments both in word and in action.

The G-7 statement makes clear that in the presence of clear domestic objectives, policies that support domestic demand through the purchase of domestic assets are compatible with a broad global recovery in output, jobs, and trade. And G-7 members have also been clear in ruling out the pursuit of macroeconomic accommodation through the purchase of foreign assets, which does not contribute to advancing global demand.

But for global demand to strengthen, it is equally imperative that all G-20 countries follow through on their recent new commitment not to target exchange rates for competitive purposes. Fulfilling the commitment to shift toward greater flexibility will require significantly greater transparency, with the timely and full publication of data on the scale of intervention in the market, including more rapid disclosure of activity in the forward market.

Going forward, we will continue to work through the IMF, the G-20 and in bilateral discussions to ensure that the pursuit of growth within each country advances growth across countries.

Thank you.

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