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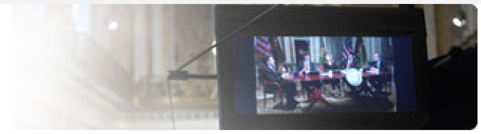

Remarks of Secretary Lew at the World Affairs Council of Seattle on Building a Stronger Global Economy

11/12/2014

As prepared for delivery

SEATTLE, WASHINGTON - Thank you, Jackie, for that introduction, and thank you all for coming. Let me also thank the World Affairs Council of Seattle for putting today's event together. The World Affairs Council has been helping to advance our understanding of global events for decades, and what you do is critical to workers, business leaders, and policymakers.

An important anniversary passed this summer with little notice. It was 70 years ago – in July 1944 – that representatives of 44 allied nations met in Bretton Woods, New Hampshire, with the goal of building an international architecture that would underpin the post-war economic order. The result was a roadmap for global economic relations and the birth of two new institutions – the International Monetary Fund and the World Bank. Having come together with common purpose to defend against grave threats in war, and with still strong memories of the Great Depression, the allies were committed to translating victory over adversity into enduring and shared prosperity. This legacy contributed to the extraordinary rise in global incomes and expansion of global trade in the decades to follow.

The financial crisis of 2008-2009 was not the cataclysm of a world war and the Depression that preceded it. But it represented the biggest economic shock since, and it also required the nations of the world to rally together to confront and ultimately defeat a common threat. When the leaders of the Group of 20, the largest developed and emerging economies, met in London in April 2009, we committed individually and collectively to deploy all policy tools to combat the crisis. Working together we bolstered the resources of multilateral institutions to support that effort, which helped stabilize the world economy, halt the global recession, and reestablish the basis for economic growth.

Unfortunately, after coming together with common purpose to end the crisis, we have been less successful at jointly meeting the other objective of the September 2009 Pittsburgh Summit: achieving "strong, sustainable, and balanced" growth. As the G-20 leaders prepare to gather again in Australia this week, global growth remains slow and uneven. Unemployment rates are stuck near record levels in several countries, and where growth is the slowest, economies face the real risk that protracted, cyclical weakness will pull down long-run potential growth, as unemployed workers lose skills needed to drive a productive economy in the future.

Clearly more work needs to be done to secure the full economic promise of the post-crisis era. Yet different views prevail among key players in the global economy about how to reach this goal.

Earlier this year, I addressed in detail the important choices the United States needs to make to realize and grow our economic potential. Today, I want to discuss the steps policymakers around the world can take to expand global growth and opportunity, and why those steps should be taken now to create the conditions for shared prosperity.

This morning, I had an opportunity to talk with a group of students at the University of Washington, young people who recognize that the economic choices made in Beijing, Berlin, Tokyo, Mexico City, and capitals all around the world have an impact on our prosperity and their future.   The United States exports more than $2 trillion of goods and services to the world. We are at the center of the global economy, and it is very much in our economic and national interest when the rest of the global economy is growing.

An examination of economic performance since the crisis suggests that a sustained recovery with solid growth requires a comprehensive approach that marshals all levers of economic policy – monetary, fiscal, and structural. In the short term, the world fundamentally needs more demand. By using fiscal space where available to make critical investments in people and infrastructure, getting credit flowing to the real economy, and creating an environment that encourages businesses to hire and grow, policymakers can put their respective economies on the right track and contribute to shared global prosperity. A comprehensive approach must include—but not be limited to—sustainable fiscal policies along with medium- and long-term structural reforms to promote ongoing economic growth.

Global Economic Performance Since the Crisis

As the global economy stabilized in the wake of the financial crisis, many looked forward to a robust recovery, but unfortunately, the recovery has not met those expectations. The IMF has repeatedly scaled back or revised downward its economic forecasts, especially for Europe, pointing to roughly $2.5 trillion in lost global economic activity compared with forecasts back in 2010. Meanwhile, the International Labor Organization estimates that32 million more people are unemployed today than before the financial crisis, in addition to 23 million workers who gave up looking for jobs.

The global recovery has been uneven, with sharply different trajectories among the major advanced economies. One useful way to see this is to look at the current level of domestic demand in each economy relative to the peak level that prevailed before the crisis. This measure of aggregate spending on goods and services produced domestically and abroad speaks not only to a country's own well-being but also whether it is contributing to global prosperity.

In the United States, domestic demand surpassed pre-crisis levels in the first quarter of 2012 and is now almost 6 percent higher than before the crisis. Domestic demand in both Japan and the United Kingdom is about 2 percent higher, slightly above pre-crisis levels. But demand in the euro zone has yet to recover the ground lost during the crisis, remaining more than 4 percent below its pre-crisis level.

These are not just abstract numbers. They tell a story that has enormous consequences for working people, and people who want to work. In the United States, over the past four and a half years, the private sector has created more than ten and a half million new jobs, the longest stretch of private sector job growth in our nation's history. The unemployment rate has fallen from a peak of 10 percent in 2009 to 5.8 percent today. And we have seen a steady drop in the long-term unemployment rate as more Americans returned to work. In fact, we have created more jobs since the pre-crisis peak than Europe and Japan combined.

To be sure, all economies have struggled in various ways since the crisis. But it is worth asking what explains the differential performance, and in particular what explains the stronger performance of the United States when compared to other advanced economies.

Explaining U.S. Economic Performance Relative to Global Peers

There are many factors at work. To start with, the U.S. economy entered the recession with more structural flexibility than most other developed countries. This fundamentally reflects the resilience and determination of the American people. It also reflects the ease of starting businesses, our highly competitive product markets, and the ability to reap rewards from entrepreneurship, characteristics that enable the U.S. economy to adapt to changing circumstances.

An environment that encourages innovation is critical, and our energy revolution in the United States is an excellent example. Technological innovation, and adapting technology to address environmental safeguards, made it possible for new businesses to invest and hire. And people in the United States followed opportunity, with workers relocating to states where the energy boom was taking hold and their skills were in demand.

In addition to the structural flexibility of the U.S. economy, stimulative macroeconomic policies have been instrumental. Indeed, the relative success of the United States flowed from the comprehensive nature of the policies adopted in the wake of the crisis.

The U.S. response was swift, and provided broad support to the economy. The American Recovery and Reinvestment Act quickly provided a fiscal boost to get our economy started again, and supported those in need, while making investments in new technologies, energy production and transportation, building a stronger foundation for future growth. Our Troubled Asset Relief Program investments provided stability for our financial system, providing a credible backstop to more than 700 banks throughout the country, so they could continue or resume supporting local economies with credit and investment. And our robust stress tests provided a credible and transparent assessment of the weaknesses in our financial system paving the way for banks to raise capital and resume credit growth. In addition, we acted quickly to reform our financial system. In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, putting in place commonsense rules of the road that make our financial system safer for consumers and investors. Our housing initiatives helped millions of struggling homeowners avoid foreclosure and refinance, and helped support the housing market. And, the crisis response included numerous measures intended to keep credit flowing so that small businesses could invest, grow, and hire.

At the same time, monetary policy responded on a number of fronts. The Federal Reserve reacted swiftly with robust monetary easing and policies to improve liquidity conditions in financial markets. The Fed also took action to unclog the arteries of credit markets, and it helped to make broader financial conditions more accommodative through the purchase of longer-term securities.

The comprehensive response in the United States addressed many of the challenges we faced. When the economic crisis drove the United States to the brink of a second Great Depression, fiscal policy was targeted at supporting near-term growth and job creation. As the economy found its footing, measures were taken to reduce spending and increase revenue, actions with more immediate impact than we desired at the time. Combined with rising growth, they helped set in motion the fastest pace of U.S. fiscal consolidation in more than 60 years, reducing the deficit from a peak of 9.8 percent of GDP in 2009 to 2.8 percent of GDP today.

To be clear, there is more work to do here to help propel economic growth, increase job creation, and expand opportunity for the American people. While our recovery has strengthened, we need to keep working so the gains are more broadly shared. The President has put forward a host of initiatives to make a difference for our economy today and far into the future. For a stronger economic future, he would increase investments in education, job training, research, manufacturing, and infrastructure. To make sure hard working men and women are not trapped living below the poverty line when they work full time, he would raise the minimum wage and extend an expanded version of the Earned Income Tax Credit. And to address the long term demographic challenges that could limit our potential economic growth, he would reform our immigration system. In addition, the President has called for reforms to shore up our retirement and health care security programs to make sure they meet their obligations to future generations. And he has laid out a plan to modernize our broken business tax system and use the one-time savings from business tax reform to help make investments in our nation's infrastructure.

Even though we are doing much better, more remains to be done and we are already reaching out to the new Congress to explore areas where we can work together.

A Comprehensive Approach to Support Growth

While the experience of one country cannot be applied directly to other countries, the U.S. economic experience offers lessons that should be helpful in confronting the challenges facing the global economy. The key insight is the importance of a comprehensive policy approach that spans fiscal, monetary, and structural dimensions.

In Europe, recent data have reignited concerns about the underlying health of the euro zone economy. Both consumption and investment remain weak. Growth of bank credit has been negative and many small and medium size enterprises, which create the most new jobs in many countries, cannot access capital. Fiscal policy is still contractionary. Inflation and long-run inflation expectations remain well below the European Central Bank (ECB) target and are falling. Unemployment remains near a record high at above 11 percent, with youth unemployment above 40 percent in a number of countries. European policymakers have taken steps to put in place firewalls, improve transparency in the banking sector, enhance the transmission of monetary policy, and reduce the fear of breakup of the euro zone. Nevertheless, euro zone growth remains fragile and uneven, demand is weak, and in some countries, growth is still overly dependent on exports.

In short, status quo policies in Europe have not achieved our common G-20 objective of strong, sustainable, and balanced growth. The ECB has taken forceful steps to support the economy through accommodative monetary policy. But as recent economic performance suggests, this alone has not proven sufficient to restore healthy growth. Resolute action by national authorities and other European bodies is needed to reduce the risk that the region could fall into a deeper slump. The world cannot afford a European lost decade.

Europe has to make its own choices about the path forward, and a conversation among European leaders is underway about comprehensive actions that would include several balanced elements to complement the efforts of the ECB. Several steps would make a big difference. First, in countries like Italy that are structurally less competitive or France where labor-market or other rigidities are constraining growth, policymakers must accelerate and sustain structural reforms. Second, as reforms are being implemented, there is a strong case to extend the timing of fiscal consolidation in these countries, so that the overall policy stance is more supportive of short term growth. The point is, credible fiscal and structural measures both need to be in place, or a comprehensive approach will not be achieved. Third, Europe should take full advantage of the funds available through existing institutions to spur domestic investment, including through European Structural Funds, European Investment Bank, and domestic institutions. Individual countries can also reorient their development finance institutions to provide additional financing for domestic infrastructure investment and small businesses. Finally, it is critical that countries with large external surpluses and fiscal space – such as Germany and the Netherlands – pursue more fiscal policies to boost demand. Greater spending on investments like infrastructure would increase long term economic potential – and advance the objective of boosting growth in the years ahead. And, the scale of the fiscal effort needs to reflect the urgency of addressing today's demand shortfall.

In Japan, the "three arrows" of Prime Minister Abe's economic program were designed to forcefully combat deflation and fuel sustained economic growth. The first two arrows – monetary and fiscal stimulus – contributed to stronger growth in 2013, but growth has weakened this year as Japan stepped back from its efforts on the fiscal side. The third arrow – structural reforms – has not been fully released. Earlier this year, the Abe Administration put forward corporate governance reform and other structural measures. Even so, the test will be whether the third arrow is sufficient to transform Japan's economy, and the jury is still out.

The recent data in Japan underscore the need for a reinvigorated application of all three arrows. The Bank of Japan's recent policy announcements make clear that the monetary arrow is being intensively utilized. At this critical stage, support for the recovery is still needed from the fiscal arrow. In particular, the experience earlier this year, when an increase in the consumption tax triggered a large contraction in second-quarter GDP, underscores the need for attention to short-term growth alongside medium-term fiscal objectives. To maintain the recovery and escape deflation, Japan needs to move proactively and decisively to more than fully offset the short-term contractionary impact of the expiration of past fiscal measures and the next consumption tax increase, should Prime Minister Abe decide to proceed with it on the current schedule. The most effective policy would give households short term relief to encourage consumption. A few years ago, in the United States, we implemented a temporary payroll tax holiday to accomplish a similar goal. On the structural reform side, moving forward with the ambitious agenda that Prime Minister Abe has laid out to encourage labor force participation and higher earnings among women and the elderly, to facilitate new opportunities for business and investment by opening up domestic sectors to competition, and to successfully conclude the Trans-Pacific Partnership trade agreement will help boost long-term potential growth.

Balanced fiscal policies are critical, and as we experienced in the United States, spending reductions and revenue increases combined with stronger economic growth produced the fastest deficit reduction in more than six decades. When macroeconomic and structural policies work hand in hand to support a growing economy, substantial progress in fiscal consolidation can materialize. In contrast, weak growth burdens public deficits and finances, which reduces debt sustainability.

We also cannot ignore the reality that prolonged cyclical stagnation tends to produce long-lasting effects that impede future economic growth. This is most evident in the labor market, where workers who face extended unemployment may suffer a loss of skills, and consequently have lower productivity. This not only reduces long term growth potential, it is a tragedy for workers and families.

Turning to the emerging markets, many countries that helped fuel global growth since the crisis are now showing signs of slowing down. China, the largest emerging economy, faces a difficult challenge as it shifts away from an unusually high investment share of GDP toward greater reliance on consumption, in the context of growing vulnerabilities in its shadow banking and real estate sectors. China's policymakers have made clear that they need to transition to a more market-oriented economy, and China has ample tools to manage this transition successfully in the near term. But, the pace of this transition will determine how strong the Chinese economy will be in the medium to long term. And slower growth in China creates complications for other economies. For example, countries in Latin America, Africa, and Asia that export raw materials to China quickly feel the impact of a slowing Chinese economy.

Emerging market countries are diverse, and there is no one-size-fits-all solution. The right mix of macroeconomic policies will vary according to their individual circumstances. However, one virtually universal priority is the need for additional structural reform to strengthen the business climate, encourage competition, and create an environment for investment and job creation. Mexico's recent experience is instructive in this regard and a model for other emerging market countries. Countries that have put in place domestic reforms are in a better position to withstand unanticipated external turbulence.

Implementing change is difficult. That has certainly been our experience in the United States. But we have also learned that the right policies can shape better outcomes. I have been struck by the change in attitudes toward the United States during the time that I have been Treasury Secretary. Just a few years ago, discussions at international finance meetings involved a good deal of attention to the economic problems of the United States. Just a couple of years later, such meetings – including the recent IMF/World Bank Annual Meetings in Washington – are animated by a recognition of how strong the U.S. economy is compared to the rest of the world and how much U.S. policies have contributed to that performance. Indeed, the world is counting on the U.S. economy to drive the global recovery. But the global economy cannot prosper broadly relying on the United States to be the importer of first and last resort, nor can it rely on the United States to grow fast enough to make up for weak growth in major world economies. The world is stronger if we all take steps to bolster domestic demand. The U.S. experience demonstrates that perseverance and decisive action can make a difference in outcomes, with the positive ramifications both domestically and globally.

Collective Responsibilities for Shared Prosperity

In addition to individual actions countries can take to strengthen their own economies, some dimensions of strengthening global growth require collective action and collective responsibility.

First, market-determined, flexible exchange rates are an important source of resilience in the global economy. However, it is important for each country to have a balanced economy—with both strong domestic demand, and open trading and investment relationships driving economic performance. The math just doesn't add up for every country to rely on external demand to fuel its own growth. It is critical that countries live up to the exchange rate commitments made in multilateral groups such as the IMF, the G-7, and the G-20. Beggar-thy-neighbor policies are not the solution to present global economic challenges.

Second, the right way to foster global trade is through high-standard trade agreements that reflect our shared values. That is why the President is pursuing trade agreements in the Asia-Pacific and in Europe that will open markets to competition and provide consumers around the world with access to more products.

Third, let me conclude by returning to the critical role of the international financial institutions as drivers of global growth. Specifically, let me underscore how critical the IMF is to our nation's economic and national security interests. The IMF's support for Europe during the euro zone crisis helped stave off a serious threat to our economy and American workers. The IMF is providing critical support to fragile economies in the Middle East and Africa that are threatened by extremism and terrorism, undergoing political transitions, and combating the Ebola virus. The IMF's support for Ukraine's economy has helped us meet our commitment to the Ukrainian people and their right to choose their own destiny. The IMF is often the first responder in times of global economic stress, as we just saw in Ukraine and with the response to Ebola.

Part of the work the United States has to ensure sustained long-term growth is affirming our commitment to institutions central to our economic and national security like the IMF. For too long, legislation ratifying IMF reforms has been stalled. Passing this legislation is vital to preserving U.S. leadership in this critical institution, and it is urgent that Congress act in the coming weeks to get this done. Our national security and global standing depend on it. Legislation that implements IMF reforms is essential to modernizing the IMF and ensuring its continued relevance and centrality to today's evolving global system, and we are committed to getting it done.

Conclusion

Today, the global economy is at a crossroads, and we face important choices that will have serious consequences for families, workers, and businesses. Policymakers should not accept the status quo of weak growth in an underperforming global economy, and we have the capacity to make decisions that will generate stronger growth across the world.

The pattern of global growth in the post-crisis era makes clear that a comprehensive policy approach is required to address demand shortfalls, create jobs, and raise incomes. There is no silver bullet or simple solution. Indeed, experience shows that the full range of policy levers – monetary, fiscal, and structural – reinforce one another.

The good news is that there are choices and policies that can help. There are some emerging areas of consensus among G-20 partners on the need to address these challenges and on some of the solutions. The focus that the G-20 leaders will give to growth strategies when they meet this week is testimony to this. There is also an emerging consensus on the importance of infrastructure investment and the role that it can play both in boosting cyclical demand and increasing long-run potential growth. There has also been notable progress in the G-20 on financial reform. The challenge is to broaden the areas of consensus and create the impetus for decisive action.

We are fortunate not to be facing extreme peril on the scale that our predecessors at Bretton Woods lived through or that we lived through in late 2008 and early 2009. And we are fortunate to have institutions and tools that are up to the challenge. As leaders gather in Brisbane, it is time for the G-20 to act once again with a sense of urgency. And leaders have the tools to make the right decisions to promote a more prosperous and safer world.

Thank you very much.

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