

# U.S. DEPARTMENT OF THE TREASURY

## Press Center



## Treasury Secretary Jacob J. Lew Remarks at Council on Foreign Relations: America and the Global Economy: The Case for U.S. Leadership

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### *As Prepared for Delivery*

**WASHINGTON** – Thank you, Sebastian for that introduction and for your leadership at the Council. This is a remarkable institution with a long history of intellectual influence on America's foreign policy and it is an honor to be here.

America's leadership in the global economy is something we all care deeply about and I want to thank Gideon and his Foreign Affairs team for publishing my essay on this topic. That piece opens with a story about the difficulty of getting the IMF quota reform through Congress and asks why it was such a long, hard road to win final approval late last year. After all, the IMF has been a symbol of U.S. leadership since its birth at the end of World War II. And along with the World Bank and World Trade Organization, has provided the underlying architecture of a global economic system that has helped produce remarkable gains over the past 70-plus years.

American leadership was essential to the creation of that system and the progress it yielded. Yet even though it has supported the well-being of our citizens and has helped the United States advance our values and foreign policy objectives, America's global economic leadership has not always been popular here at home. In the case of IMF quota reform, it took five years to convince Congress to act, a delay that led many in the international community to question America's leadership position in the global economy.

The ultimate passage of IMF reform was pivotal, but it was just one of many important steps needed to sustain our economic leadership and adapt it to the challenges of our time.

We know that the global landscape of the next century will be very different than that of the post-war era. And if we want it to work for the American people, we need to embrace new players on the global economic stage and make sure they meet the standards of the system we created, and that we have a strong say in any new standards. The worst possible outcome would be to step away from our leadership role and let others fill in behind us.

Making the case for global engagement is a responsibility we all share. And we must make the choices necessary to ensure both the future of the international architecture we built and America's position in it.

Over the last year, the Obama administration has made significant progress advancing U.S. leadership in the global economy. We worked with Congress to secure IMF reform, Trade Promotion Authority, and reauthorization of the Export-Import Bank. We reached agreement with our international partners on TPP, a landmark climate agreement, the Iran nuclear deal, and a stepped-up strategy to confront terrorist financing. But to ensure the benefits of our global role remain available to future generations, we have more work ahead of us.

### ***Decades of Benefits***

Since its establishment in 1944, the Bretton Woods system of cooperation has evolved and endured by providing a foundation for mutual economic gain that could not be achieved by individual countries alone. Since 1950, real per capita income worldwide has quadrupled, raising living standards for billions of people, extending life expectancies, and expanding access to education.

Clear rules for global economic relations create opportunities and incentives to innovate, invest and work – the critical drivers of economic progress. But a system of mutual responsibility does not automatically enforce itself; it requires responsible American leadership. It also requires constant improvement, to raise standards and create better mechanisms to ensure that countries keep their commitments, refrain from unfair competitive behavior, and cooperate to confront new challenges.

The rules-based system was a major reason that the global financial crisis never turned into a second Great Depression. The United States and other nations were able to coordinate efforts through the G-20 and the IMF, and avoid the downward spiral of protectionism and predatory macroeconomic policies that characterized previous eras. The world's major economies—the United States, the eurozone, Japan, and China—launched simultaneous economic stimulus programs and mobilized financial assistance to vulnerable parts of the global system.

We have built on that cooperation in recent years to advance important U.S. goals including the IMF's response to fiscal stress caused by the Ebola epidemic in 2014 and its support for Ukraine following Russia's aggression in Crimea. The scale and speed of assistance in both instances would not have been possible if the United States had to act alone or stitch together donor contributions. The simple fact is that international financial institutions amplify U.S. influence on the global stage.

We have also worked closely with partners to implement financial sanctions that show how this same global financial architecture can be used to persuade malign actors to abandon behavior that threatens peace and security. The Iran agreement is a direct result of the financial pressure imposed by an unprecedented global coalition. And we have and continue to work closely with our allies to impose costs on Russia for its actions in Ukraine and on entities that are abetting North Korea's nuclear violations.

But the benefits of international coordination and our international standing cannot be taken for granted and we must take the necessary steps to preserve and strengthen our position.

### ***Next Steps At Home***

Responsible and sustainable U.S. leadership in the global economic system begins at home. And we have to lead by example, as we did by bouncing back from the financial crisis that threatened America's place in the global economy. The U.S. economy has now produced the longest streak of uninterrupted private-sector job growth in American history. Between 2009 and 2015, the budget deficit has declined from nearly 10 percent of GDP to 2.5 percent. And improved financial regulation has helped address the causes of the crisis, producing a better-capitalized and more stable financial system.

Yet along the way, political brinksmanship led some to question America's capacity to meet this moment of leadership. The threat of government shutdowns and default heightened global anxieties. And Washington's inability to reach a consensus on domestic priorities such as rebuilding aging infrastructure and reforming the broken business tax code—priorities with bipartisan support—creates unnecessary risks to America's future economic strength.

Recent advances, including multi-year budget targets, the passage of trade promotion authority and the reauthorization of the Export-Import Bank, have demonstrated that we have the capacity to work together to make important progress, but much more work remains.

#### ***Next Steps Abroad***

Beyond our borders, the world's economic challenges will not end with the current administration, nor will the ongoing agenda for U.S. leadership. And there are a number of priorities that we must continue to press.

First, we must work with our partners to further modernize the IMF, allowing it to intensify scrutiny of critical issues like exchange rates, current account imbalances, and shortfalls in global aggregate demand. Because more information means better policy cooperation and more efficient financial markets, the IMF should continue to promote greater transparency among its members when it comes to economic data, especially as it relates foreign reserves.

Second, we must work with our partners to make the World Bank and the regional development banks more efficient and effective. These institutions need to have the resources and policy expertise to help countries promote sustainable development and address challenges like state fragility, forced migration, natural disasters, and disease epidemics. They must also be able to mobilize resources to cut carbon emissions and build societies resilient to climate change.

Third, we must help modernize the global trading system by pushing for innovative features in new trade agreements. TPP, for example, includes strengthened labor and environmental provisions, robust protections for trade in services, and controls on the behavior of state-owned enterprises to ensure fair competition. Under the agreement, members have also pledged to avoid manipulating exchange rates. These high standards need to be the model for future agreements.

Fourth, to prevent a repeat of the financial crisis, we must continue to lead efforts to reform the international financial regulatory system. U.S. leadership in this area has already resulted in more rigorous capital standards for banks, greater transparency in the derivatives market, and stronger tools for managing the failure of financial institutions. With many of the critical standard-setting reforms in place, the focus must shift to comprehensive and consistent implementation and close attention to emerging threats.

Fifth, we must continue to combat terrorist financing, corruption, money laundering, and other financial crimes. The Treasury is strengthening its anti-money laundering and counter-terrorist financing rules at home, working through the Financial Action Task Force, to improve enforcement globally, and partnering with countries to combat terrorist financing, specifically against ISIS. Because we must keep up with innovation in the private sector and by our adversaries, regulators must update their regimes while ensuring regulations do not impede legitimate provision of financial services—especially to the underserved.

Finally, we are committed to building on the progress we have made in cooperating with emerging market partners including Brazil, Argentina, India, and Mexico on key priorities such as facilitating investment, improving the implementation of tax policies, promoting financial inclusion and combating money laundering and terrorist financing.

As the two largest economies, the United States and China also have a unique responsibility to work together to advance shared prosperity, maintain a constructive global economic order, and make progress on critical challenges like climate change. This year, we will hold the seventh U.S.-China Strategic and Economic Dialogue, a platform that has strengthened relations between our two countries and provided a forum for discussing important priorities like China's shift to toward consumption-led growth and greater transparency and predictability in its policymaking.

#### ***Conclusion***

While the progress of the last year has helped to advance this important agenda, we cannot take our global role for granted and we must always think about how our choices will affect our leadership in the future.

With vision and foresight, previous generations of Americans have provided a foundation on which to advance our values and build a prosperous future for the United States and other countries. Our task now is to strengthen that architecture and adapt it to new challenges. If we come together and accomplish this, we will not only support today's prosperity, we will also ensure that the next generation of Americans inherits an even stronger platform for navigating tomorrow's economic landscape.

Thank you.

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