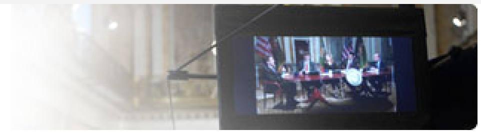

Treasury Secretary Jacob J. Lew Remarks at the Brookings Institution: From Pittsburgh to Hangzhou: The Past, Present, and Future of the G-20

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WASHINGTON – Let me begin by thanking the Brookings Institution, Kemal Derviş for the kind introduction, and David Wessel for hosting this important discussion.

It is a pleasure to be with you. Later today, I depart for Hangzhou, China to join President Obama at the G-20 Leaders Summit, the last G-20 meeting the President will attend during his tenure. It is a valuable moment to take stock of how we have used the G-20 over the past eight years to promote economic growth and financial stability, both of which remain so important to American workers and families. President Obama will use this Summit to advance concrete steps toward a future that is safer, environmentally sustainable, and one in which the benefits of economic growth are more widely shared.

We have made significant strides during the past eight years. In late 2008, the world economy suffered the worst financial crisis since the 1930s. Recognizing the truly global nature of the crisis, President Obama joined world leaders from large economies—both advanced and emerging—for his first G-20 Summit in April 2009. It was a time of great uncertainty, that required a spirit of close cooperation: G-20 Leaders pledged to do whatever was necessary to halt the crisis, including committing $5 trillion in new fiscal stimulus and bolstering the resources of the International Monetary Fund and other multilateral institutions.

Coordinated action made a difference. Five months later, in September 2009, President Obama hosted the next meeting of the G-20 in Pittsburgh, where in two simple words, leaders assessed the forceful response to the crisis by declaring, and I quote, “It worked.” But they also recognized that much more remained to be done. In Pittsburgh, G-20 Leaders committed to a comprehensive work program aimed at boosting the recovery, strengthening the financial system, and building an architecture to prevent future crises.

Since 2009, we have used the G-20 to deliver on that commitment:

We addressed the problem of “too big to fail” by strengthening the global financial regulatory framework and putting in place structures to prevent a repeat of the crisis, including higher capital standards, improved monitoring and regulation of derivatives, and greater transparency and resolution plans.

We built a critical consensus on exchange rate policies to avoid beggar-thy-neighbor actions that leave us all worse off, and on working towards shared global growth by using all available means—monetary policy, fiscal policy, and structural reforms.

We reformed the governance of institutions like the IMF to make sure they are well resourced and more representative of a diverse global economy, so they continue to be relevant and effective in a changing world.

We implemented reforms at the World Bank and regional development banks to advance efforts to close the development gap and fight poverty.

We reaffirmed our resolve to fight terrorism in all of its forms, strengthening efforts to prevent the financing of terrorism.

We worked together to strengthen global action to fight climate change, and to make sure that financial resources stand behind this commitment.

And through a shared belief in the importance of financial inclusion, we continue to strengthen efforts to improve access to the world’s financial system.

Why the G-20 Matters

The United States is stronger and the American people are more prosperous because of the work we have done at the G-20.

First, the G-20 brings policymakers from leading global economies together to exchange views about key global challenges, diagnose common problems, and debate strategies to address them.

Sometimes there is broad agreement on these issues and the G-20 serves as a platform to coordinate policy responses and maximize their effectiveness, as was the case in the immediate aftermath of the global financial crisis. At other times, there are divergent policy views, and the G-20 provides a platform to work through the issues with the goal of building consensus over time.

When I became Secretary of the Treasury in 2013, a debate over “growth vs. austerity” dominated these meetings. The United States believed it was misguided to impose immediate fiscal austerity with the global economic recovery still fragile and unemployment still unacceptably high. We thought there was a need for short-term growth and longer-term structural reforms. But not everyone agreed, and our differences would not be resolved immediately.

It was only over time—through persistent discussion and evaluation in G-20 meetings and as these issues increasingly became topics of domestic political debate in many countries—that a consensus began to form around the U.S. position. In February of this year, G-20 Finance Ministers, meeting in Shanghai, finally committed to “use all policy tools—monetary, fiscal, and structural—individually and collectively” to support the recovery. Beyond words in a communiqué, this commitment was almost immediately reflected in new policy measures in several major countries—including Canada, China, South Korea, Japan, and parts of Europe—all undertaking additional fiscal spending or delaying tax increases to support their economies. And today, the G-20 is no longer debating growth versus austerity, but rather how to best employ fiscal policy to support our economies, and increasingly how to make sure the benefits of growth are more widely shared, while continuing to focus on sustainable long term fiscal policies. More needs to be done, but we have made real progress.

Second, G-20 meetings provide a mechanism to hold countries accountable to one another for commitments they make, particularly when their policy actions could harm others.

Take currency exchange rate policy. The United States has long opposed using exchange rate policy to devalue a currency to gain an unfair trading advantage. We have pressed this bilaterally and multilaterally, and worked in the G-20 to build a consensus that all major economies should refrain from unfair exchange rate practices. At a time of slow economic growth, policymakers can be tempted to look at interventions in foreign exchange markets to lower the value of a currency, or prevent it from appreciating, as a quick and easy fix. But, as we know, these policies in the past have led to a vicious cycle of currency wars and protectionist measures that ultimately lead to lower global growth—which hurts everyone over time.

We engaged counterparts on this issue at meeting after meeting, and in 2012, President Obama affirmed with other G-20 Leaders a new shared commitment to move more rapidly toward market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, avoid persistent exchange rate misalignments, and refrain from competitive devaluation of currencies. There, for the first time, China committed to allow market forces to play a larger role in determining movements in the renminbi , to continue to reform its exchange rate regime and to increase the transparency of its exchange rate policy. We continued to build upon those commitments, including in Shanghai earlier this year, where the G-20 agreed for the first time to consult closely on foreign exchange markets to avoid surprising one another with sudden changes in policy that could have a negative impact on other countries.

This was no small achievement considering China's objection to such policies not long ago—and we will continue to hold China and others accountable to those commitments.

It is notable that amid the various political and economic surprises that have periodically unsettled financial markets this year, G-20 countries have continued to abide by their exchange rate commitments, providing stability at otherwise volatile moments. To what can we attribute this discipline? At one level, G-20 members know that they each benefit from a collective restraint that is respected. But they also want to avoid being taken to task by their G-20 peers should they be the country to violate their commitment.

On top of the important progress achieved at the G-20, the United States and 11 nations that are part of the Trans-Pacific Partnership have agreed to high standards designed to address unfair currency practices, including unprecedented transparency and reporting standards, as well as enhanced communication and cooperation on macroeconomic and exchange rate policy issues. And earlier this year, President Obama signed legislation that puts in place important new exchange rate reporting and monitoring tools of our trading partners and gives the Administration the authority to levy meaningful penalties to hold countries accountable for unfair currency practices. The Trans-Pacific Partnership puts in place historic labor and environmental standards that ensure our trading partners play by our rules and values. We are committed to securing support for TPP, and hope that Congress will approve the agreement as soon as possible. It is the right thing to do for our economy and for American leadership in the strategically important Asia-Pacific region.

Finally, G-20 meetings provide a platform for deepening relationships and building trust among senior political and economic leaders throughout the world's leading countries.

Solid relationships are indispensable to making progress on the work of the G-20. Relationships among G-20 leaders, finance ministers and central bank governors, for example, were critical during the extended effort to secure U.S. congressional passage of IMF reform legislation. In 2009, we led the world to embrace reforms, which give the IMF sufficient resources to be the first responder at times of economic crisis, and also give emerging and under-represented countries a greater stake, while maintaining U.S. influence. But after more than five years, when the United States failed to ratify these reforms, many countries, including our close allies, began to question our commitment to the very international financial architecture that we helped design. Time and again at these meetings, either the President or I needed to persuade the world that we would keep our commitment, and that the world should not try to move on and find other paths forward that would dilute U.S. influence. Personal trust, forged in large part through the G-20 process, prevented the United States from being isolated, and even during this difficult period, we were still able to marshal support for U.S. priorities like the IMF's Ukraine program and the response to the Ebola crisis. And, with the approval of IMF quota reform legislation by Congress last December, we quickly restored U.S. political capital for future challenges that lie ahead.

Close working relationships also allow for rapid and clear communication, and action at challenging times, particularly when events or issues can be difficult to understand and predict at moments of turmoil. This was certainly the case in the wake of the recent UK Brexit referendum. Regulatory and policy collaboration by Finance Ministers and Central Bank Governors in the lead-up to that vote was effective and helped to settle nervous global markets. In the days following the referendum, the Treasury team worked closely with our international counterparts, again drawing on strong relationships of mutual trust. So when volatile currency movements could have prompted uncoordinated responses, coordination among G-20 counterparts helped calm financial markets. And the benefits of this coordination are not limited to economic and financial shocks. We also see the benefit, for example, in the wake of terrorist attacks, when rapid cooperation on areas like tracking and blocking terrorist financing are critical.

Our Goals for Hangzhou and Beyond

We have come a long way in a short period of time. When I became Treasury Secretary three and a half years ago, there was still a lingering bitter view around the world based on the fact that the U.S. was at the epicenter of the 2008 global financial crisis. But today, there is broad appreciation for the resilience of the U.S. economy and our ability to again drive growth, providing much needed support for the global economy. As a result, economic policymakers around the world again see the United States as an example to be emulated, which historically has been a very real source of U.S. leadership and strength.

But there is more work to do in Hangzhou. At his final G-20, President Obama will press on several issues to help ensure stronger growth, an environmentally sustainable future, and a global economy that truly works for everyone.

The President will call on his counterparts to follow through on the G-20's commitment to use all policy tools—including fiscal policy—to achieve robust and inclusive growth, and he will underscore the importance of investing in jobs and supporting middle-class incomes.

Support for the global economy can—and should—be stronger. And we continue to believe that more countries have room to enact pro-growth policies. We also see the choice of using fiscal or structural tools as a false choice. Some countries have defined structural reforms as a solution in and of themselves. But it is clear that macroeconomic support is essential for many structural reforms to be successful, both to provide important transitional assistance to displaced workers, and regions, and to boost an economy during an adjustment period when necessary structural changes can lead to a short term decline in economic activity, such as when excess industrial capacity is retired.

The President will press for action on excess capacity, most notably in the steel industry. Excess capacity distorts markets and the environment, harms our workers, and runs counter to our efforts to achieve strong, sustainable, and balanced growth. He will also press for fiscal measures both to smooth the transition and increase short term demand.

As we work to achieve strong, sustainable, and balanced growth, the G-20 must also remain mindful of the need to redouble our focus on making sure the benefits of growth are broadly shared by all our citizens, and that the benefits of global economic integration reach working and middle class families through better jobs and living standards. Around the world, the message of anxious and angry citizens who feel left behind underscores the need for global financial discussions to show both an understanding of this concern, and a commitment to action. That is why, at the July G-20 Finance Ministers Meeting in Chengdu, we pressed the G-20 to refocus on the goal of strong, sustainable, balanced, and inclusive growth. In Hangzhou, President Obama will advocate for greater emphasis on inclusive growth by the G-20, including policies to create opportunities for youth and vulnerable populations, and will encourage countries to develop action plans to promote digital financial inclusion so that banking services become more universally available.

President Obama will also reiterate his support for an open, integrated global economy. As the President has said, there are very real concerns about globalization and technology, but the answer cannot be to close ourselves off. The U.S. has a strong interest in increasing access to markets that are becoming a larger share of the global economy. The United States looks forward to discussing ways to ensure the G-20 is upholding high standards, protecting workers, ensuring a level playing field, and expanding opportunity.

The President will also continue to emphasize the importance of the G-20's work to ensure a level playing field for workers and businesses to compete. In recent years, the G-20 has made significant progress, cracking down on corruption and addressing tax evasion and avoidance. These efforts remain critical to promoting broad-based economic opportunity.

In the wake of the financial crisis, the United States played a leadership role in pressing for and implementing financial reforms. The U.S. financial system is considerably stronger than it was eight years ago, and we will continue to work with the G-20 and the Financial Stability Board it created to strengthen regulation and supervision of the financial system, which in most cases brought standards closer to our own. President Obama will stress the need for all countries to implement the agreed financial reform agenda on a timely basis.

In Hangzhou, we will take the opportunity to reaffirm our commitment to preserving access to the U.S. financial system while continuing to protect its integrity by enforcing U.S. laws and regulations against money laundering, terrorist financing, and sanctions evasion. To advance these complementary goals, we have worked together with federal banking agencies to bring greater clarity to the conversation about correspondent banking including, through a joint fact sheet released yesterday, outlining supervisory and enforcement processes with respect to anti-money laundering and sanctions. Access to the formal banking system is not only a key to unlocking economic potential, it is a critical way to avoid illicit activity in an informal cash economy.

Climate change remains a serious threat to the global economy and to international security, and no nation is immune. The longer we wait to address this challenge, the more costly it will be, both in financial and human terms. The G-20 must continue to exercise leadership in meeting this critical challenge.

At the Pittsburgh summit in 2009, Leaders agreed to phase out inefficient fossil fuel subsidies over the medium term. We must renew our efforts to phase out these subsidies, and in Hangzhou the President will press to move forward with this commitment. The United States and China have recently completed our respective fossil fuel subsidy peer reviews—the first to be undertaken under the auspices of the G-20. We congratulate Germany and Mexico for launching their own reviews, and encourage other G-20 members to do the same.

The G-20 is also making important contributions to meeting climate and other environmental challenges through the new Green Finance Study Group. A final report showing the group's progress this year will be publicly released along with the Communiqué at the Leaders Summit, and we encourage the G-20 to continue developing this valuable body of work. And we will continue to look for ways the G-20 can support the implementation of the Paris Agreement.

Finally, President Obama will underscore the continued importance of the G-20 going forward. At the Pittsburgh Summit in 2009, we made the decision to elevate the G-20 as the premier forum for international economic cooperation. Since then, the G-20 has made global economic governance more effective and representative, and provided an indispensable setting to facilitate cooperation among the world's leading economies. And the President believes the G-20 will continue to play a central role in preventing a re-emergence of the types of imbalances and regulatory gaps that contributed to the global financial crisis in 2008.

I will close by noting that the G-20 has proven to be a flexible forum for global cooperation. As we have seen over the last few years, moments of global crisis like 2008 and 2009 call for one kind of coordinated response, like we saw in Pittsburgh. Periods of lesser stress require something different: a commitment to common principles, and individual action that move important issues towards better outcomes, while allowing partners to maintain a dialogue to deal with potential or real crises. A one-size-fits-all approach to coordination will never work, but the interdependence of the global economy demands frequent communication, and building consensus requires the investment of constant attention to detail and persistent efforts.

Thank you very much, and I look forward to the discussion with David Wessel.

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