Remarks of Deputy Secretary Justin Muzinich at the Atlantic Council Geoeconomics Center

October 7, 2020

INTRODUCTION – TRANSATLANTIC POLICY RESPONSE TO COVID-19

Thank you Julia. My thanks also to Steve Hadley for moderating the discussion. Congratulations to the Atlantic Council on the opening of the Center for Geoeconomics. Having spent time carefully looking at your goals, the Center is an extremely timely and worthwhile undertaking.

More broadly, now more than ever, The Atlantic Council's mission of fostering a strong transatlantic relationship is important. COVID-19 has severely disrupted our economy and way of life. As the world looks to the future, it is important that we not just re-start economic growth, but that the right values guide us in a post-Covid world.

And that is why the transatlantic relationship is so important. It represents over forty percent of the world's GDP and nearly half of global personal consumption.[1] But it is about much more than the economy. It is a community of values that we cherish, and live by, and are prepared to defend. Our common belief in liberty and democracy makes this partnership a cornerstone of world stability. I believe that the pandemic has only highlighted how important our shared values are.

I would like to focus the first part of my remarks today on the response to the pandemic in the United States and Europe, and then turn to several Transatlantic policy areas where cooperation based on shared values is essential -- specifically investment security, crypto currency, sanctions, and economic growth.

U.S. AND EU ECONOMIC RESPONSE

Beginning with the pandemic response, the United States and Europe each mounted unprecedented economic programs. We moved quickly and boldly, dampening the macroeconomic shock and laying the groundwork to support the recovery that is occurring today, though there is of course much work to do.

Our experience so far demonstrates that we need not operate from identical playbooks to work toward our shared goals of full employment and robust and inclusive growth.

In both the U.S. and Europe, fiscal policies provided support for households amid sharp declines in employment and hours worked. This was achieved through a mix of unemployment insurance and job retention programs, but with varying weights. The United States relied more heavily on direct payments to households, including stimulus checks and unemployment insurance, while also promoting job retention through the Paycheck Protection Program. European policymakers focused on subsidizing company payrolls to retain workers through a variety of short-time work programs, which had been used during the global financial crisis, so were ready to be re-launched.

Ultimately, both U.S. and European fiscal policies have produced similar results. First, by maintaining a base level of household consumption through the worst of the pandemic and subsequently by unleashing pent-up consumer demand. Retail sales have rebounded to above pre-pandemic levels, with both the U.S. and Europe at 104% of 2019 averages.[2]

Monetary policy tools have also played an instrumental role in the response. With short-term interest rates constrained from below, asset purchase programs and lending facilities remain the primary workhorses for both the Fed and the ECB. Both central banks have increased their bond holdings at a record pace as well as expanded their loan books. However, implementation of these programs differs. The ECB's targeted longer-term lending operations offer low rate, long-duration loans to banks with built-in incentives to encourage lending. The Fed has stood up a wide array of direct lending facilities, several of which receive U.S. Treasury backing. While the specifics vary, the relative scale of operations is strikingly similar. From mid-March through August, the Fed's balance sheet has grown by 15 percentage points of GDP, over the same time, the ECB's balance sheet swelled by 19 percentage points of GDP.[3]

Our strong responses have been mutually reinforcing, and as our economies recover, there are four areas where transatlantic cooperation will be vital.

INVESTMENT SECURITY

The first is investment security. Prior to the pandemic, the United States and many of our European partners were already collaborating on investment security. The pandemic has only increased the sense of urgency. The vulnerability of companies to take-overs increases in a crisis, and other countries are sensitive to this.

There has been a recent groundswell of action by our transatlantic partners to either establish or update their investment review regimes. Many have reached out to us to benefit from our expertise given our work through CFIUS. France, Germany, Italy, Finland, and Spain already had investment review regimes, but have taken steps to further protect themselves. Other European countries such as Norway and Poland have established new regimes. Still others—like Ireland and the Czech Republic—are considering legislation.

Our competitors and adversaries will be relentless in their pursuit of cutting-edge technologies. If the U.S. and Europe are unified on this issue, we can protect our values and enhance national security, while embracing global growth.

CRYPTOCURRENCY

A second area where cooperation is critical is cryptocurrencies. Cryptocurrencies are a fascinating topic because they have implications not only for private business, but also for a number of activities the government is responsible for.

Consider for instance national security. One of the issues at the top of Treasury's mind is that digital currencies can potentially be used to evade existing legal frameworks—like those governing anti-money laundering and the countering of terrorist financing. Treasury has made it clear that the obligation to comply with U.S. laws is the same regardless of whether a transaction is denominated in traditional fiat currency or digital currency. Existing laws apply to digital assets in no uncertain terms.

However, even if we could be assured that the private sector is complying with the letter and spirit of AML laws, there are important remaining concerns that government must consider, such as a digital currency's potential effects on the monetary base and financial stability.

These are linked to a broader concern about what I will call governance. For instance, if a decade from now there were a desire for a stablecoin to go from fully reserved to partially reserved, or to shift its underlying mix of reserve currencies, this could alter money supply or cause financial disruption. Would such a decision be made by a private governing association? Or by a majority of coinholders? What if foreign actors had acquired a majority of the coins? In any case, would important decisions about our economic system have been taken out of the hands of government accountable to the people?

The speed and cost advantages of stablecoins are clear, and we of course value innovation and efficiency. However, digital currencies are not simply a means of payment, but, depending on their structure, can shift some functions traditionally performed by government to the private sector. Therefore, policymakers on both sides of the Atlantic must continue to work together to take a very hard look at these issues.

SANCTIONS

A third area where the U.S. and Europe must work closely together is holding bad actors accountable. We have a joint obligation to ensure the financial system is not used to undermine the freedoms we value so deeply.

To date, our efforts have made it more difficult for terrorists, criminals, and rogue regimes to move money around the world, and teams from the U.S. and Europe are in frequent touch to identify illicit activities. Through the hard work of both the United States and Europe at the Financial Action Task Force, virtually all countries are subject to a rigorous peer review that examines their ability to prevent money laundering and terrorist financing.

Another example of excellent cooperation is on Syria sanctions. In June of this year, Treasury designated 24 individuals and entities in Syria. These designations reinforced actions taken by the European Union to hold the Syrian regime accountable for their mistreatment of the Syrian people. We will continue to work with our EU counterparts on potential targets.

An even more recent example is the sanctions that the European Union, the United Kingdom, Canada and the United States imposed last week on Belarussian officials for rigging their presidential election. These officials can no longer easily access the international financial system. We hope these actions will result in a change in behavior and lead to free and fair elections soon, as well as make clear to others the cost of interfering in democratic processes.

We also understand and share our European partners' concerns about the impact of sanctions on humanitarian assistance. Treasury has made it a top priority to ensure that our sanctions do not impede COVID-19 relief. We have a long history of authorizations and exemptions across our sanctions programs to ensure the flow of humanitarian assistance is not interrupted.

On April 9, we reiterated this commitment in a statement that emphasized support for COVID-19 related aid. But, we made sure to reinforce that this aid should occur through legitimate and transparent channels. The pandemic has tested the global financial environment, creating conditions ripe for money laundering, corruption, and fraud. We are committed to ensuring that bad actors do not take advantage of this pandemic to enrich themselves.

GROWTH

A final topic I would like to discuss is the importance of growth. We of course value strong and broadly-distributed growth because of the opportunities and hope it creates for our citizens. Liberty and self-determination are best realized in an environment with diverse and widely available economic opportunities that enable people to pursue their dreams.

We have been very focused on this at Treasury, and I am proud of the progress we were able to make before the world's attention shifted to the Coronavirus. In 2019 poverty rates hit an all-time low, and real median household income grew to an all-time high at a record pace of almost 7%, or more than $4000 in a single year.[4] The unemployment rate hit a five-decade low, and all-time lows in unemployment were achieved for various minority groups including African-Americans and Latinos and Hispanics.[5] Particularly notable was that wage growth at the bottom decile of the income distribution hit an all-time high, and exceeded wage growth for the top decile of the income distribution.[6]

But growth is not only valuable because it increases living standards, it is also a vitally important safeguard of our shared values.

This is the case for several reasons.

First, a larger economy allows an increased ability to invest in the security programs which do so much to safeguard our way of life. This includes military personnel and equipment, intelligence services, and cutting-edge research. While this benefit of growth is easy to see, it is too often not part of the conversation.

Second, as countries around the world make relative choices about who their partners will be, the faster we grow, the more attractive we are as partners. Growth means more purchasing power and more influence in international standards setting. This is especially important as the world adopts frontier technologies such as 5-G, AI, and quantum computing. The larger our markets are, the more likely we will be able to set technology standards that protect our shared values.

Third, maintaining the world's leading economies allows us to shape global financial market access. Increased economic growth makes our sanctions regimes more effective and raises the opportunity costs of malign activity, helping us deter bad actors and achieve our shared foreign policy goals.

Finally, a strong economy is a testament to the benefits of our liberal democratic system and a counterpoint to top-down, state-led approaches. Our sustained growth and prosperity has been unmatched by competing economic systems. As other countries seek to achieve their vision of world order, it is as important as ever to demonstrate that we can continue to provide unparalleled and broadly distributed opportunity.

CONCLUSION

To conclude, let me return to what is front of mind today, the COVID 19 crisis. I have always regarded public service as a privilege, and it has been a particular honor to be able to serve in this moment of national reckoning. Crises can bring in to focus what is most important, and in the case of the Transatlantic relationship, I hope it will do just that. Our shared values have guided our response to the crisis, and we must focus on these as we look to create a prosperous, free, and secure world. At times Europe and the U.S. will view individual policies differently, but on the scale of world affairs, these differences are small compared to the values we share. Let us remember what binds us together, as we work side-by-side to shape a world of which future generations will be proud. Thank you.

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[1] World Bank World Development Indicators. Note annual data for 2018 measured as sums of US and EU-27 GDP and final household and NPISH consumption in nominal US dollars.

[2] Treasury staff calculations based on data from BEA/Haver Analytics (US) and Eurostat/Haver Analytics (EU-27). Observations based on seasonally adjusted retail sales volumes data for August 2020, indexed against 2019 averages.

[3] Bloomberg

[4] Census Bureau, “Income and Poverty in the United States: 2019.” Accessed at https://www.census.gov/library/publications/2020/demo/p60-270.html

[5] Bureau of Labor Statistics, Current Population Survey, accessed at https://fred.stlouisfed.org/series/LNS14000006 and https://fred.stlouisfed.org/series/LNS14000009

[6] Bureau of Labor Statistics, Current Population Survey, accessed at https://www.bls.gov/cps/cpswktabs.htm