

Remarks by Secretary of the Treasury Janet L. Yellen at the Brussels Economic Forum



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Remarks As Prepared for Delivery

Thank you for inviting me to speak at the Brussels Economic Forum. I am honored to be giving the Tommaso Padoa-Schioppa lecture.

It is fitting that our discussions today focus on building the economy of the next generation, given the uncertainty about the future of the global economy inherent in the present geopolitical context. Indeed, young people in Europe and the United States have a huge stake in this discussion as they consider how we will end the COVID-19 pandemic, protect the planet they will inhabit, and ensure the peace and stability of daily life that so many take for granted. Let alone whether they will be able to secure well-paying jobs to support themselves and eventually their families.

While so much is uncertain, one thing we have in our power is the ability to deliver real and effective cooperation to secure a more prosperous and sustainable world for the next generation on both sides of the Atlantic. The United States and Europe have shown what we can do when we come together. Our response in confronting the immediate crisis we face today—ending Vladimir Putin’s brutal war against Ukraine and its people—is a clear demonstration.

But we can go further. We can extend this potent transatlantic cooperation to address many of the other shared challenges we face.

Tommaso Padoa-Schioppa was a person who thought big. Of course, he is best remembered for his commitment to an integrated Europe and his seminal contributions to central banking and the creation of the euro. His life’s work was based on an optimism about what could be

achieved through probing technical analysis and informed collaboration. At the same time, he was not shy about pointing out what he saw as weaknesses or shortfalls with the approaches of the day—shortfalls that if left unaddressed would undermine a more prosperous and secure Europe, and indeed a secure world.

As we look to the future, we should take this inspiration from Tommaso's legacy—be open to challenge, improve, and where necessary, replace existing approaches as we consider how to respond to the questions before us today.

I want to start by highlighting areas where the United States and Europe are already strong partners: areas where we have more to do, but where our cooperation is already producing promising results.

The most tangible example is our joint response to Vladimir Putin's unprovoked war against Ukraine and its people. The war is taking a devastating human toll—with lives tragically lost, families internally displaced or becoming refugees, and communities and cities destroyed.

We have taken a strong and united stand against Russia's heinous actions. And thanks to our unity, we have seen that swift and sweeping sanctions can have enormous force. The United States, Europe, and our partners—representing well over half the world's economy—have imposed an unprecedented suite of financial sanctions and export controls on Russia. This multilateral approach has enabled us to impose significant costs and limits on Russia, which I believe are degrading its ability to prosecute this war and project power in the years ahead.

By acting together, we demonstrate that these sanctions are not motivated by any one country's foreign policy or economic objectives. Rather, we are acting to uphold principles—our opposition to aggression, to widespread violence against civilians, and in alignment with our commitment to a rules-based global order that protects peace and prosperity. And by standing together, we ensure that Russia cannot play off some of us against others.

Rest assured, if Putin continues his heinous war of choice, the Biden Administration will work with you and our other partners to push Russia further towards economic, financial, and strategic isolation. More and more, the Kremlin will be forced to choose between propping up its economy and funding the continuation of Putin's brutal war.

Now we need to extend our cooperation to boosting support for Ukraine. Ukraine's immediate financing needs are significant. Due to the ingenuity and bravery of Ukrainian officials, their government continues to function. But in the months until tax collection can resume at pace, Ukraine needs budget funding to pay soldiers, employees, and pensioners, as well as to operate an economy that meets its citizens' basic needs. In short order, it will need to turn to repairing and restoring critical utilities and services. Eventually, Ukraine will need massive support and private investment for reconstruction and recovery, akin to the task of rebuilding in Europe after 1945. Ukraine will have to take this one step at a time, but we can help today and acknowledge and prepare for what is coming. What's clear is that the bilateral and multilateral support announced so far will not be sufficient to address Ukraine's needs, even in the short term.

That's why President Biden has called on the U.S. Congress to provide an additional \$33 billion in security, economic, and humanitarian aid. I sincerely ask all our partners to join us in increasing their financial support to Ukraine. Our joint efforts are critical to help ensure Ukraine's democracy prevails over Putin's aggression.

Another recent example of transatlantic cooperation is the international tax deal. This past October, 137 countries, including all the EU Member States and the United States, came together to support a historic deal that will reshape the international tax system.

This agreement simply could not have happened without close coordination between the United States and Europe. Through intense engagement, we listened to one another regarding our respective interests and challenges, and were able to come to an agreement. We also brought in the rest of the world, including developing and emerging economies, so that the agreement met all countries' needs.

Pillar 2 of this deal establishes a minimum effective global corporate tax rate. Countries have agreed to tax the foreign earnings of their multinational corporations at a rate of at least 15 percent and to do so on a country-by-country basis. This agreement will halt a decades-long race to the bottom in corporate taxation around the globe—a competition that has proven self-defeating.

Once implemented, we can put the revenues produced by this deal toward funding investments to make our economies more sustainable and fairer—not just in the United

States and the EU, but also in emerging and developing countries. And by moving together we will raise these revenues in a way that levels the playing field. Businesses will be able to compete on economic fundamentals, rather than on tax incentives, thereby contributing to our collective prosperity.

Pillar 1 of this deal, focused on the taxation of digital services, puts an end to trade tensions between the EU and the United States that threaten our companies with multiple layers of taxation and our consumers with rising costs from tariffs. That dynamic isn't good for anyone.

Pillar 1 will also update and stabilize the international tax architecture, providing a fairer allocation of revenues than the status quo and tax certainty that is good for business and investment. Rather than facing harmful unilateral measures, companies will be able to plan and thus invest their capital efficiently.

We cannot rest on our laurels. We still have important work to do to get international tax reform across the finish line. We must resolve the open issues in Pillar 1 so that the multilateral treaty can be ready for signature. And on Pillar 2, the EU and the United States must show leadership by expeditiously implementing the global minimum tax in our domestic laws.

Our sanctions against Russia and the international tax deal are tangible recent examples of what we can achieve when we work together. These experiences can serve as inspiration as we consider the breadth of unmet challenges that would also benefit from such ambitious cooperation.

First, we must address the present energy security emergency to ensure supply for Europe and the world, while using this as our moment to rapidly accelerate the transition to clean energy.

We know that tackling climate change is becoming more urgent. The recent IPCC reports confirm that our window of opportunity to leave a livable planet to future generations is even closer to being permanently shut.

At the same time, Russia's war against Ukraine is having immediate impacts on the availability

of oil and gas, which continue to account for four-fifths of global energy production used to power economies today.

I know that Europe is facing a uniquely difficult situation, given existing infrastructure and supply contracts with Russia over the near term. That is why I commend European leaders for their proposal to phase out all Russian energy supplies within six months. And I recognize the solidarity of the European people in accepting the implications of this proposal.

Russia's war and its recent decision to cut gas supplies to Poland and Bulgaria, threatening other countries with the same, show that it is not a trusted partner. Russia is using energy as a weapon to deploy against those who stand against its aggression. The United States is committed to working with Europe in your efforts to meet your energy needs, while also breaking dependence on Russian energy. This includes working with other partners to increase export volumes of LNG to Europe.

As we do so, we must heed this wake-up call to expedite the global transition to a more secure and cleaner energy future. No country controls the wind and the sun. Let's make sure that this is the last time that the global economy is held hostage to the hostile actions of those who produce fossil fuels. This will happen again if we don't change our approach.

In the near term, we will likely see an uptick in coal and other fossil fuel usage as countries seek to keep legacy assets online longer. And if this blunts some of our immediate climate goals for a short period, let it also prod us to redouble our efforts on clean and renewable energy.

We know that the key to sustainable energy security lies in the development and deployment of renewable and zero emissions energy. Remember that renewables already account for over 80 percent of new electricity generating capacity year globally. Why? Because they are often cheaper and less subject to price spikes and external market volatility.

Over the medium term, we need to dramatically ramp up renewables, invest in new technologies, and increase support for energy efficiency measures to reduce energy demand. Depending on how long higher energy prices last, we should see some natural supply responses and new technologies deployed. The longer the current disruption lasts—the more aggressively we say no to Russian oil—the more remunerative it will naturally become to

switch to renewables.

Second, we must modernize the approaches we have used to build trade integration both to better incorporate our shared core values and principles and to provide economic security.

We have become too vulnerable to countries using their market positions in raw materials, technologies, or products to exercise geopolitical leverage or disrupt markets for their own gain. For example, the development of dependence on Russian oil favored cost and convenience over concentration risk and considerations of security.

And energy is not the only example of trading off cost against security. Russia is also a large supplier of key minerals. And we have long accepted a significant dependence on China for the supply of rare earths. These minerals and materials comprise vital inputs in aviation, vehicle production, battery manufacture, renewable energy systems, and technology manufacturing. China is responsible for 60 percent of rare earth mining and nearly 40 percent of reserves, giving the country geostrategic leverage. While many of these materials are abundant in the earth, they are costly and, in some instances, polluting to extract.

In addition, China is building a consequential market share in certain technology products and seeks a dominant position in the manufacture and use of semiconductors. And China has employed a variety of unfair trade practices in its efforts to achieve this position.

We have a set of common vulnerabilities that we should address.

Another rather different but relevant example is solar panels—where our concern is not security but rather the clash between our human rights values and the cost advantage of buying these products at a time when we are eager to achieve decarbonization.

My point is to suggest that we should consider ways to maintain free trade and at the same time lessen some of these risks. We do not want a retreat from trade integration, causing us to forego the benefits it brings to the world. But as the economist Richard Baldwin said: “Putting all your production eggs in one basket doesn’t make sense, no matter where the basket is.” The recent crises have shown us that, in most cases, it is more secure to have multiple sourcing that is not fully correlated.

What I am proposing is that we properly account for the externalities stemming from these other considerations—concentration, geopolitical concerns, security risks, and values. In the case of rare earths, numerous other countries possess these resources. It is in our collective interest for them to pursue greater extraction with care for environmental and other consequences. With high-tech manufactured products, it may make sense to create incentives for multiple supply chain alternatives to arise—with smaller market shares and with more trusted countries.

I believe that we need to consider how to incentivize the “friend-shoring” of supply chains to a greater number of trusted countries for a variety of products, so we can continue to securely extend market access, with lower risks to our economy, as well as to those of our trade partners.

Third, we must improve the global health architecture to enhance our resilience to future pandemics. The COVID-19 pandemic has cost us millions of lives, trillions of dollars in lost economic output, and severely impacted health systems around the world. It has also revealed how unprepared we were at the national, regional, and global levels to address health threats that know no boundaries. So even as we work to overcome COVID-19, we must strengthen our collective efforts to prevent the next pandemic, and be ready with detection, data sharing and treatment strategies.

Efforts to tackle the pandemic, including through the Access to COVID-19 Tools Accelerator, provide some useful lessons for strengthening collaboration. G20 countries are also working with a range of international partners through a Joint Health and Finance Task Force to strengthen cooperation across the health and finance communities to address the current gaps in the international health architecture. This includes closing the estimated \$10 billion per year shortfall in investments in pandemic preparedness. Several countries have agreed to support a Financial Intermediary Fund as a flexible mechanism to help fill the gaps in health system investments at the country, regional, and global level. We look forward to strong European support in launching this funding mechanism this year.

And finally, we need to revisit our approach to development financing to meet the vast unmet needs and better respond to more global challenges. We are already working together to address the spillovers of Russia’s war against Ukraine, while many developing countries are still grappling with strained policy space and output losses from COVID-19. Our cooperation—

alongside the G20 and many other partners around the world—has included unprecedented funding levels, novel debt relief initiatives, and a heightened focus on addressing longstanding food security challenges.

We must also think beyond the immediate development priorities. As many as 10 billion people are yet to be born in this century. The reality is that most of these people will be born outside of the United States and Europe.

The last couple of centuries have featured the “rise of the West.” It’s clear that the promise of the next several generations will include other geographies. Fulfilling that promise will require significant investments—in areas such as education, healthcare, and sustainable infrastructure. We have also seen that our current models for funding global public goods, like climate adaptation and mitigation, healthy security, and fragility, are insufficient. To finance these immense needs, we need to look beyond our current models, as official development finance, helpful as it may be, will never be sufficient. The question is how to tap the much deeper pools of private capital to mobilize the trillions needed to deliver on the aspirations of the next generation.

We should take bold action because of the moral imperative to eliminate poverty and provide opportunities for young people around the world. And of course, a more prosperous global economy will also have direct benefits for Americans and Europeans, fueling growth and jobs at home, as well as greater peace and security.

There is a strong case for pursuing common goals jointly, not unilaterally. For example, we have a common interest in incentivizing China to refrain from economic practices that have disadvantaged us all. These practices range from those affecting trade and investment, to development and climate policies, to approaches to provide debt relief to countries facing unsustainable debt burdens. Where we share common interests, we should all find ways to engage with China and express our views. China is more likely to respond favorably if it cannot play one of us off against another. The Biden Administration believes that cooperation of this kind will be more effective than the unilateralism that we saw in the not too distant past.

We should all aspire to encouraging China to drop objectionable practices. If we can do so, we will stand a better chance of competing with China on a level playing field, which will benefit

our businesses and consumers. And we will have a stronger basis for convincing China to join us in the many important areas where truly global cooperation is necessary.

To conclude, let me turn back to Tommaso Padoa-Schioppa. Despite all he accomplished—with his vision for a more integrated Europe realized—Tommaso never stopped pressing for greater cooperation to address shortcomings and strengthen our global system. Indeed, one of his last speeches notably called for renewed cooperation to remedy the global financial crisis and build an international monetary system that would prevent its recurrence.

We have before us now an immense array of challenges. So, let's think big, and let's do it together. We must redouble our efforts to create opportunity, a sustainable environment, and ultimately widespread and sustainable prosperity now and for our children's children.

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