THE ECONOMIC CLUB

OF WASHINGTON, D.C.

Excerpts from the Signature Event featuring The Honorable Timothy Geithner, Secretary of the U.S. Department of the Treasury

April 22, 2009

"The world economy now is going through what, without a doubt, is the most severe crisis in generations. We each face somewhat different challenges, we're not all in the same boat, but we're all in the same storm. We bear, in the United States, a substantial share of the responsibility for what has happened. But the factors that have made this crisis so acute and so difficult to contain lie in a broader set of global forces that built up in the years before the start of the present downturn. Never before in modern times has so much of the world been simultaneously hit by a confluence of economic and financial turmoil. . . .this is an abrupt, brutal correction of a period of financial excesses that has overwhelmed the normal self-correcting mechanisms of economies and markets and can only be ended by extraordinary policy response."

We bear, in the United States, a substantial share of the responsibility for what has happened. But the factors that have made this crisis so acute and so difficult to contain lie in a broader set of global forces that built up in the years before the start of the present downturn. Never before in modern times has so much of the world been simultaneously hit by a confluence of economic and financial turmoil. The IMF *[International Monetary Fund]* now expects the world economy to decline this year for the first time in more than 6 decades. The 1.3% decline forecast by the IMF represents a sharp deterioration from the roughly 4% annual rate at which the world economy normally would be expected to grow. The lost output could be as high as $3 trillion to $4 trillion this year alone. Several crucial lessons flow from the simultaneous nature of this crisis. The rest of the world needs the U.S. economy and the U.S. financial system to recover. We remain at the center of global economic activity, with financial and trade ties to every region of the globe. But, just as important, we need the rest of the world to recover if we are to prosper again at home. Before the crisis, U.S. exports were among our economy's fastest-growing sectors, accounting for more than 6 million American jobs, or about 5% of total private sector employment in the United States. Now the export sector is one of the fastest-shrinking sectors of the economy.

During the boom years, we all marveled at how globalization was speeding the pace of economic activity and integration. Now we're learning that in times of contraction, globalization transmits trouble with enormous speed and force, affecting economies around the world – the relatively strong as well as the more vulnerable. This crisis, though, is not simply a more severe version of the usual business cycle recession, the typical downturn in which economies ultimately adjust and stabilize. Instead, this is an abrupt, brutal correction of a period of financial excesses that has overwhelmed the normal self-correcting mechanisms of economies and markets and can only be ended by extraordinary policy response. The President has moved quickly to put in place a comprehensive framework of policy initiatives to restore growth and create jobs at home, and the need to move quickly to build consensus globally with other nations on a coordinated global response. This response reflects the three critical imperatives of the crisis: First, it requires very strong actions to increase demand through fiscal policy, through investments and tax incentives alongside the actions undertaken by central banks around the world. Second, it requires a sustained effort to repair financial systems so that we get credit flowing again to those who can use it most effectively. And, third, it requires the mobilization of financial resources to help directly address the challenges facing emerging markets and developing economies.

Alongside our expansion plan in the United States, we've worked with other countries during the recent summit of G-20 nations in London to put together an unprecedented, cooperative program of fiscal stimulus. What makes this program so powerful is not simply its size, but the fact that nations are acting alongside each other to support demand with fiscal policy.

During the London Summit, the G-20 agreed to make more than $1 trillion available in financial resources through the international financial institutions, principally, to help support global growth and trade. The vast bulk of those resources will go to emerging and developing economies that, as recently as the fall of last year, accounted for 42% of U.S. exports. That will improve their economic and financial health and, in turn, will help improve ours. These programs have already provided immediate benefits in terms of confidence. They will make it possible for the governments of emerging-market economies to act more quickly to support growth, to repair their own financial systems, and to help avoid the type of dramatic falls in exchange rates that were the feature of the financial crises in emerging markets of the late 1990s. These programs act as a form of insurance policy for the world economy and, therefore, for the U.S. economy.

As we move to put in place this global framework of actions to address the crisis, the recession, we've also tried to make sure we're laying the foundation for a more stable, more balanced, and more sustainable global recovery. This requires attention to the composition and to the quality of growth both within our country, within countries, and across countries around the world. Second, it requires a cooperative effort to lay the foundation for more stable financial systems in the future, financial systems that are less vulnerable to recurrent crisis. Finally, it requires that we commit now to unwind and reverse the extraordinary actions we have been compelled to take to address the crisis. Once the risks have receded, then conditions for a durable recovery are in place.

Our goal now must be a sustained expansion, an expansion that is better balanced. We have to set ourselves on a path so that one country or a group of countries does not consume in excess, while another set of countries produces in excess. A more balanced recovery and expansion must be one where each nation is focused on growth that is sustainable and not dependent on the U.S. consumer. It will require a stronger focus on investments and incentives to improve productivity growth, and it will require a deep commitment to ensure that the gains of expansion are more broadly shared within our countries and across nations.

On financial reform, we are collectively committed to reforming this 20th century financial regulatory system to match the 21st century financial structure of our time. This means that even as we reform our own systems, we have to move to reform the global system in tandem. The financial systems in our own markets and around the world have to do a better job of performing the critical function of efficiently allocating capital without promoting excessive risk taking. The G-20 countries have taken a first step by agreeing on a common set of standards and principles to apply more evenly, more effectively around the world.

Our fortunes are more closely tied to those of the rest of the world than ever before. Our interests as a nation depend critically on the broader economic health of the world economy. In the years leading up to this crisis, U.S. exports of goods and services grew in real terms at an annual rate of almost 9%, nearly triple that of the overall economy. But, by the end of last year, our exports were declining at a rate of almost 25% per year, the sharpest decline since the end of the Second

World War. Our recovery depends upon reversing this decline. American workers are among the most productive in the world, but we need the world to provide growing markets for our goods and services. This is not just an economic imperative. Our Director of National Intelligence, Admiral Blair, testified recently that the global financial crisis is the greatest near-term threat to this nation's security. He said, quote, "The longer it takes for recovery to begin, the greater the likelihood of serious damage to U.S. strategic interests."