

# THE ECONOMIC CLUB

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O F W A S H I N G T O N , D . C .

**Excerpts from the Signature Event featuring The Honorable Timothy Geithner, President  
and CEO, Federal Reserve**

**February 9, 2005**

“...[the] broad challenge involves the rise of China and the other major emerging market economies. The process of integrating China and India into the world economy offers tremendous gains in global living standards. But the greater adjustment pressures that come with integrating the two most populous economies in the world will put a greater burden on the political sustainability of open trade policies. The framework of international institutions and arrangements for cooperation we now have will need to change to reflect the emerging importance of these economies. One important dimension of this process of integration will be a necessary evolution in the global exchange rate system. The present system, where the major currencies adjust against each other, but many large emerging market economies tie their currencies to the dollar or shadow it closely, creates an awkward asymmetry. This system carries with it the seeds of future stress for the global economy.” ~ The Honorable Timothy F. Geithner, President and CEO, Federal Reserve Bank of New York

“We face a number of significant challenges. . . . The first is the growing imbalances at the center of the global economy. Fiscal policy in most of the major economies is on a path towards rising debt-to-GDP ratios; this trajectory gets dramatically worse as demographic changes reduce the ratio of workers to retirees. At the same time, external imbalances have reached unprecedented levels, most dramatically in the case of the U.S. current account deficit, which is on a path to exceed 6 percent of GDP. These imbalances—fiscal and external—cannot be sustained indefinitely. Each magnifies the risk in the other.” ~ The Honorable Timothy F. Geithner, President and CEO, Federal Reserve Bank of New York

“We now face a substantial and unsustainable gap between our fiscal commitments and our resources, not just over the longer term with respect to Social Security and Medicare, but also with respect to budget projections for the coming ten years. Reducing this gap to a more sustainable level is vital. The decisions we make this year and over the next few years will be important to building more confidence that we have the will to act in a manner commensurate with the challenge.” ~ The Honorable Timothy F. Geithner, President and CEO, Federal Reserve Bank of New York