Treasury's Geithner Explains the Administration's Strategy to Meet the Global Economic Crisis

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EDITED EXCERPTS FROM SECRETARY GEITHNER'S REMARKS

Administration's Response to Economic Crisis. This response reflects three critical imperatives. First, 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, a sustained effort to repair financial systems so that we get credit flowing again to those who can use it most effectively. Third, the mobilization of financial resources to help directly address the challenges facing emerging markets and developing economies. **Foundation for a Stable, Balanced, and Sustainable Global Recovery**. First, it requires attention to the composition and quality of growth both within our country, within countries, and across countries around the world. Second, a cooperative effort to lay the foundation for more stable financial systems in the future, systems 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. **Seeds of Its Undoing.** A major lesson of this crisis is that the remarkable overall performance of the global economy between 2003 and 2007 contained within it the seeds of its own undoing. **Do a Better Job.** 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 tasking. **Global Regulatory Standards.** Our aim is to promote a race to the top in global regulatory standards, not a race to the bottom. **Reverse Course.** We're designing our financial programs so that we can reverse them as soon as practical and avoid the risks that come with sustained government intervention in the financial system. **Our Fortunes Are Tied to the World.** Our fortunes are more closely tied to those of the rest of the world than ever before. 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.

DAVID RUBENSTEIN: Good morning, I'm David Rubenstein, President of the Economic Club of Washington. Welcome to what is likely to be a very interesting session with Secretary of the Treasury Tim Geithner. We will follow his remarks with a question and answer format. Any of you will be free to ask questions.

We're very honored today to have as our special guest speaker the 75th Secretary of the Treasury. He's had many distinguished predecessors who have also served as Secretary of the Treasury, but I think none of them actually had the experience of spending as much at the Treasury before becoming Secretary as has our current Secretary. He actually spent a dozen years working at Treasury before, as Deputy Assistant Secretary, Assistant Secretary, and Under Secretary for International Affairs. When he left, he had served under three different Presidents and five different Secretaries of the Treasury.

He began a new career after leaving Treasury and went to the International Monetary Fund, but was recruited away very shortly thereafter to serve as the ninth president of the Federal Reserve Bank of New York, perhaps the most important position in the federal government in finance outside of Washington, DC.

In that position, at the IMF and at Treasury, he developed a reputation for being able to coolly define problems, assess the risks, and develop solutions that work very well with all of the constituent parties. He developed a reputation for knowing how to tackle very difficult problems in the United States and outside the United States.

So, for those reasons, I'm sure, President Obama asked Tim Geithner to serve as his Secretary of the Treasury. That was probably not an unsurprising decision, given his reputation, but the real stress test for the Secretary actually occurred earlier in his career because, after graduating from college and SAIS at Hopkins, he spent 3 years working for Henry Kissinger. [Laughter.] And that was true stress.

Probably no other Secretary of the Treasury has spent as much time outside the United States before becoming Secretary, except for probably Alexander Hamilton, who was his first predecessor. Tim Geithner lived throughout parts of the world with his family as a young boy and as a young man and brings that experience to the table. He has language skills that many of us wish we had.

So we're very, very pleased today that he is going to be speaking to us about some of the events that will be going on this coming weekend and other things with the IMF. We're very honored that he'll be here to answer questions as well. So please fill out your cards and I will try to get us through as many of the questions as possible. Now, it's my honor to introduce the Secretary of the Treasury, Tim Geithner. [Applause.]

SECRETARY TIMOTHY GEITHNER: Thank you, David. No stress in my work – [laughter] – then or now. I've been exceptionally fortunate in the range of experiences I've had in public life and the people I've been able to work with, no greater privilege than working as part of this Administration at this extraordinary time. I want to talk today about the global nature of the current financial and economic crisis and provide an update on the strategy we've put in place to help address this crisis.

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. It's important to underscore, though, that we now have in place a very strong framework of policies to confront the crisis. Our challenge is to put those commitments into action and to make sure that our actions are proportionate to the scale of the challenge.

Now, although this crisis, in some ways, started in the United States, it is a global crisis. It's global in the sense of the damage that has spread widely; it's global in the sense that the challenges we see in the United States today are common to many countries around the world.

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 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.

Now, as a consequence of, nations of the world must work together. That work has already begun, but we have to work together to lay the foundation for recovery and lay the groundwork for a new, more stable, and more sustainable pattern of growth in the future.

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.

Over the past 3 months, 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.

Now, within weeks of assuming office, the President worked with Congress to enact the largest economic recovery plan in generations. By the time the plan has been fully implemented by the end of next year, we will have injected nearly $800 billion into the U.S. economy, saved or created 3.5 million jobs, and raised our real GDP growth rates by 3 percentage points above what would have prevailed in the absence of that action.

And in just over 60 days since passage, funds are already at work in communities around the country as highway projects break ground and people are seeing more money today in their paychecks.

Now, 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. This increases the effectiveness of each of our actions. Central banks started earlier in the crisis to move together to reduce interest rates, but those actions are now being matched by the actions of government on the fiscal front.

Now, alongside these macroeconomic policy steps to support growth, this Administration has put in place a comprehensive plan to help restart lending, to support the flow of credit. These initiatives include programs to help bring more capital into the banking system, to help keep mortgage interest rates low, and to help restructure mortgage payments and thereby reduce the magnitude of potential further declines in housing prices

They include programs to help revive securitization markets, the markets that are critical to small-business lending, to consumer lending, to automobile financing, to corporate lending, to commercial real estate markets. They include programs to help restart the market for legacy real estate assets.

Governments around the world are pursuing similar strategies. These programs are going to be tailored to the specific challenges, specific circumstances of each country, but they all have the common objective of providing stability to the financial system, providing capital where necessary, catalyzing securities markets and facilitating the clean-up of these legacy assets.

These two types of programs — direct support for demand economic growth here and efforts to repair financial systems — are necessary conditions for restoring growth. But these actions need to be complemented by other steps to support trade and mobilize resources for emerging markets and developing economies.

So, 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. Now, that's about the immediate imperative. But, 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 several things.

First, it 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.

As we work to address the immediate crisis, we have to keep focused on these broader, longer-term imperatives so that, again, our actions lay the foundation for a future with fewer dangerous booms and destructive busts.

A major lesson of this crisis is that the remarkable overall performance of the global economy between 2003 and 2007 contained within it the seeds of its own undoing. Our goal, therefore, 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.

Each of the major economies, including the United States, as well as the largest emerging-market economies, shares a responsibility for achieving this objective. And the IMF has a special responsibility to help us fulfill these obligations by offering independent assessments of our policy efforts and their impact on this common objective of putting in place a more balanced and sustainable recovery.

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 tasking. 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 aim is to promote a race to the top in global regulatory standards, not a race to the bottom. Now, we've employed extraordinary fiscal mantra and other government policies to deal with this crisis, but these are temporary and exceptional measures and they need to be reversed when we've accomplished the immediate objective of generating recovery.

With this in mind, the Administration has presented a budget plan that charts the path to achieving sustainable budget deficits in the medium term so that recovery – and this is critically important – so that recovery is not impaired by concerns about excessive government borrowing in the future.

We're designing our financial programs so that we can reverse them as soon as practical and avoid the risks that come with sustained government intervention in the financial system. We have to make critical investments in health care, in education, in energy, in infrastructure to lay the foundation for a more productive economy in the future with the gains of growth more broadly shared.

Now, 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."

When economies decline, credit dries up, people lose their jobs and children are unable to stay in school, hard-won gains for democracy and political stability are threatened – are at risk. As I said at the outset, we're not all in the same boat, but we're surely in the same storm. Today's crisis is unlike any we've experienced for 7 decades. The balance-of-payments crises of the '50s and the '60s, the oil shocks of the '70s, the debt crisis of the '80s, and the Asian financial crisis of the '90s – they pale by comparison. Those crises were more localized; they had their winners as well as their losers. As a result, international cooperation in those crises was slower to come. It was less effective and less powerful.

In this crisis, in contrast, we've acted together to put in place a strong framework of policies to confront the crisis on a coordinated basis at an earlier stage – much earlier stage – than you've seen the world react in the past. The actions now in place, and those in the pipeline, offer the strongest basis for confidence that we will begin to lay the foundation for recovery. The rate of decline in global growth and trade has shown some signs of easing. Some measures of spending and output have started to stabilize. Financial conditions are starting to improve modestly – you're seeing some thawing in credit markets. And we've started to see some signs of stabilization in declines of output and trade.

These are encouraging signs, but I want to underscore that progress is going to take time. We still face, together, very significant risks and challenges. For this reason, it's critically important that governments around the world continue to act to strengthen the basis for recovery. We may have to adapt our policies further as conditions evolve, but we need to make sure, above all, that we provide a scale of support — and we sustain the support — that matches the intensity of the challenge. The financial world comes together in Washington later this week, and this will give us a chance to build on the commitments made by the G-20 in London.

I want to underscore, though, for this group and for the world, the commitment of our government, the government of the United States, of our country, to work with other nations to bring this crisis to an end and to put in place a more stable and more balanced foundation for growth in the future, not just for the United States, but for the world economy as a whole. Thank you for having me. I'd be happy to take some questions, David. [Applause.]

QUESTIONS AND ANSWERS

MR. RUBENSTEIN: First question is, what economic indicators are you looking at to determine when we've hit bottom, and how will you judge what the biggest economic problems we are facing over the next 6 to 9 months are?

SECRETARY GEITHNER: You have to look at everything. There's no real single measure that captures the balance of risks and can give you a full picture of the challenges still ahead. I think it is important for people to recognize that in the typical pattern of recoveries — and this will not be different — even as growth stabilizes and starts to recover, unemployment will remain high for some time.

That's one reason why it's so important, again, even where you start to see some signs of traction and stabilization, that governments keep providing support for demand, because you need to make sure that those resources are used productively, that we bring down unemployment over time, that viable businesses, again, have the chance to grow and expand. One of the big mistakes governments make in crises is they step on the brakes too early, or they ease up on the accelerator too early, at the first sign of progress. It's very important that we not make that mistake.

So again, even though, as I said in my remarks, it's very important that we lay a foundation for bringing ourselves back to sustainability — sustainable budget deficits — unwind these interventions in the financial sector, etc., it's very important that we have in place, first, very strong, durable conditions for recovery before we shift to that long-term sustainability objective.

MR. RUBENSTEIN: How do you compare the economic decisionmaking process of the previous Administration with this Administration and with the Clinton Administration, which you were also a part of?

SECRETARY GEITHNER: Well, I can't speak to the previous Administration, but let me say a couple things in that context. I believe you get the best policy outcomes when you bring a group of people to the table with different interests and perspectives and you look at the merits of alternative choices, you debate those merits, and you focus on what the best thing to do for the country is, before you figure out what's achievable and how to make it work and have an effect. The best way to get good policy outcomes for the country is to run a carefully designed process, again, which brings diverse perspectives to the table at an early stage to sort through alternatives.

This President has — putting me aside for the moment — put together an exceptionally talented group of people, and he is running just an excellent process to explore policy alternatives, early stage, to make sure we're focused on what's right for the country, not just in the short term, but over the longer term. We're prepared to do hard things, painful things, where we can make the case that they're necessary for the long-term future of the country. That's in the best tradition of policymaking. And, of course, the world and the American people will judge us by our results, but this is the best way to get to better policy choices for the country.

MR. RUBENSTEIN: Is the government considering any shift in borrowing toward longer-term bonds to take advantage of historically low interest rates?

SECRETARY GEITHNER: Well, you know, Treasury runs a very carefully designed, sophisticated process on the debt management side and you'll see, on an ongoing basis, Treasury lay out plans for how to best meet these exceptional challenges of financing the near-term deficits, deficits, of course, that are, in some ways, forced us on as the price of trying to resolve this crisis. But you'll see Treasury lay out, as it normally does, how we best balance those conflicting imperatives.

MR. RUBENSTEIN: Can you comment on the manager selection process for the public-private investment partnership and the factors that will guide your decision?

SECRETARY GEITHNER: Not more than what we've put out already in our term sheets and on our Website. You'll see more details as we define them. But let me just tell you something about the objectives here.

We had a financial system that, over a long period of time, took on too much leverage and made a bunch – just to say it simply – made a bunch of bad loans. Those loans are still sitting on the books of the financial system and they are taking up room that could otherwise be used for creating new credit. As part of the effort to help make sure there's enough capital in the financial system to support recovery, we've put in place or laid out these funds and facilities to help provide a market for those legacy assets.

In doing that, we've chosen to use a model that has private investors come in and take risk alongside the government to put real money at stake, skin in the game, to help make sure that the price at which those assets are purchased reflects a sophisticated understanding of the economic risk in those assets. Our judgment is that that will provide a greater potential of, again, creating a market for those assets, freeing up balance-sheet room to support lending at less risk and less ultimate cost to the government.

Again, the simple principle is, if you have people taking risk alongside the government with their money at stake, you're going to get better judgments about what the economic value of these assets are. You'll save the government from the risk that we would certainly have faced if we bought them ourselves – of substantially overpaying for these assets.

It also allows us to bring in private managers with professional expertise to manage those assets. It also helps reduce the risk to the taxpayer over time. Our judgment, again, is that this approach is just overwhelmingly dominant, the two classic alternatives. One alternative is to have the government alone come in and buy all of those assets, make a choice about valuation, assume all of the risk in getting that value wrong and then managing those assets poorly over time.

That, again, in our judgment, will be much more expensive and not a sensible choice for the government. The alternative path is to hope that banks over time will simply be able to grow their way out of these problems, earn enough over time to cover losses on those things. But that path will leave us with the risk – you're still in a financial system that isn't providing enough credit for recovery, a financial system that's generating stronger headwinds, deepening the recession, prolonging the recession.

So, again, our choice is to say it's better to help clean up those balance sheets through this market-based mechanism, rather than leaving it untouched and just hoping over time that the system will work its way out of this. Our judgment is that this combination of programs to bring capital into the financial system, provide a market for these legacy assets – these very powerful funding programs we're doing with the Fed to help restart securitization markets — they offer the best mix of programs to help resolve this crisis in the United States.

I just want to underscore that we still face a lot of challenges and risk in the economy, both here and around the world. But we've already had a substantial amount of adjustment in our financial system. You know, our recession started 5 quarters ago, but the adjustment in the financial system started even before that. So we are starting from a position where — and this is important to point out — again, there's already been very, very substantial adjustment across the financial system.

A lot of capital has already come into the system, too, which has put us ultimately in a better position to, again, make sure that a financial system is in a place where it's providing enough credit to support a strong recovery.

MR. RUBENSTEIN: Do you expect to ask for more TARP money, and if people want to give back the TARP money they already have, why can't they do so?

SECRETARY GEITHNER: As we said in the initial budget, where we put in a reserve fund against the possible contingency that we may need additional resources, that if we get to the point where we believe, to get through this crisis, we're going to need additional resources, we'll go to the Congress and make that case. But we have not made that judgment yet, we don't need to make that judgment yet. Congress has given us substantial resources; our obligation is to use those most effectively as possible to get these programs working and underway.

On the second question, we would welcome, of course, strong banks repaying the TARP resources – a lot of value in that. But the supervisors have to make a judgment about under what conditions that would be tenable for individual institutions. As I said yesterday, it's very important that we underscore the fact that our obligation is to make sure the system as a whole is in a position where, again, it's not working against recovery, it's not deepening our recession by pulling more oxygen out of the credit markets, and it has enough capacity to provide the flows of credit necessary to support a stronger recovery.

That's what's guiding our objectives, and that has to guide judgments in this context, too. But ultimately, the supervisors have to make that choice. They're going through a process now where they're going to lay out criteria and standards for doing that. My expectation is, a substantial amount of resources will come back.

MR. RUBENSTEIN: Are you worried about the impact of the debt of the United States government impacting adversely the dollar?

SECRETARY GEITHNER: I like to say it this way, David, as I said in my speech: It is very important to the United States, as the President did in his budget, that as we put in place these extraordinary efforts to, again, get growth back on track, restore the financial system to some state of repair and strength, that we also lay out a path to bring our deficits down to a sustainable basis over the medium term. That is very important to do, because the American people and investors need to understand that we have the will and the commitment, as a country, to go back to the point where we're living within our means.

That's going to require very substantial adjustments to bring our resources and expenditures more into balance. No one can feel more strongly than me about that imperative. It's a very difficult balance, because, again, to get to that point, we have to get recovery in place. The immediate challenge, and the fiscally prudent, fiscally conservative response of a government facing a crisis like this is to expand spending and investments for a short period of time on a temporary basis.

But again, you have to do that in the context of laying out a medium-term framework to bring those deficits down to a level where our debt burden is stable, relative to GDP, at acceptable levels. That's what the President's budget laid out to do, and I think the resolutions passed by the Congress are consistent with that. Our challenge, of course, is to act with the Congress to make sure we deliver on those commitments over the medium term.

MR. RUBENSTEIN: Since you have no other confirmed officials at Treasury, when do you expect that there will be other confirmed officials?

SECRETARY GEITHNER: We've got a terrific group of people at the Treasury working very hard, doing extraordinary things. Just to compliment them, let me just say a few things. It's been 90-what days? In 90 days, this Administration — just to speak to the economic side of it — has helped design this extraordinary package of investments, spending measures, tax incentives, and the Recovery Act — a very substantial program of initiatives to help address the housing crisis, help strengthen the financial system, help get securities markets going again, help provide a market for these legacy assets.

You've seen interest rates – mortgage interest rates – come down quite significantly. Because of the President's programs, millions of Americans now will have the chance to refinance their mortgages – take advantage of those lower interest rates. That generates very, very substantial savings for the typical American, who would otherwise not have been able to refinance to take advantage of these interest rates. You've seen us lay out the initial outlines of comprehensive financial reform.

You've seen us move with countries around the world to put in place a strong consensus on — again, you've never seen anything like this in terms of the strength of the consensus around a policy framework to help address recovery around the world – and again, you've seen the President work with Congress to lay out a very ambitious set of priorities in the budget on the domestic agenda that will not just help strengthen the productive capacity of the American economy over time through reforms in education, reducing growth in healthcare costs, encouraging more energy efficiency, strengthening infrastructure, but also in a framework where we're credibly committing to bring those deficits down to a sustainable level over the medium term.

So the people at the Treasury are doing a terrific job. They're working very hard, and they deserve a lot of credit for the scale of accomplishments and initiatives put in place in a very short period of time. I am looking forward, though — [laughter] — to having a fully complemented team — [chuckles] — and I'm confident we're going to get – and we are getting – some, just, great people. You know, this is a moment where people want to come work for their country. We're all hoping that public service is compelling again. I think you're going to see that in the team and the people you see attracted to work for this President, this time, across the Administration, not just at the Treasury.

MR. RUBENSTEIN: Related to that, you were minding your own business as the head of the New York Fed. Did you ever reconsider your decision to take this position in light of all the problems you've inherited?

SECRETARY GEITHNER: I am, uh — [laughter] — I feel deeply privileged, as I said – [laughter] – to have this moment. Look, you know, I really have spent my life in this world, in these jobs, and I feel a deep sense of obligation, particularly given the responsibility that America bears for this crisis, to be part of this effort with this President and this Congress trying to fix this crisis and get us back to the position where the government of the United States is doing a better job of managing our country's economic fortunes, not just in the financial system, but more broadly. If you do this, like I do and so many people do, you have to be here at this moment doing this. There is no plausible alternative. So I feel lucky to do it. It's a challenge, but it's a challenge that, you know, we live for.

MR. RUBENSTEIN: Can you clarify your views on China's currency? Do you think it's being manipulated or do you think it should be revalued in any way?

SECRETARY GEITHNER: I have nothing to add to what — [laughter] — we said in the report we issued last week. Just to provide the context for that, you know, the world is going through, again, this is an extraordinary period. There've been extraordinary changes in the basic challenges facing emerging-market economies and a transforming change in how you want to evaluate all the concerns that first led Congress to legislate that requirement in this report.

So we tried to lay out those challenges, those changes, in the report; we tried to identify where there was substantial progress that had already been achieved, and where we expect further progress ahead. But as I said in the report, you know, our judgment is that China is playing a very important stabilizing role in the economy today. You just look at the actions they've taken to strengthen domestic demand – very strong financial response, fiscal policy response, to the crisis. They are committed to continuing this path of further evolution in their exchange rate regime, which is so important to China and so important to the rest of the world.

But we tried to lay out a careful balance in the report, and obviously, there's more work ahead for us and for everyone. We're going to keep a focus on those challenges, but you know, the world has just changed dramatically over the past 6 months and the last report of issues and those changes required a fresh assessment of that set of issues we traditionally have to cover in the report.

MR. RUBENSTEIN: Do you think the government will get back its money from AIG?

SECRETARY GEITHNER: AIG is still an extraordinary challenge. Let me just say a few things, David, in that context: I want to say that Ed Liddy and the team he has there and the people of AIG are working very hard in the interests of the American taxpayer to try to put in place a tenable restructuring plan over time that separates the weaker parts of that firm from the stronger parts of the firm, that puts those strong, underlying franchises of the insurance business on a better foundation to help improve the odds the taxpayer is repaid.

It's a challenge – it's a challenge not just because of the decisions that Liddy's predecessors made, but it's a challenge made much worse by what's happening around the world. It's much harder to do anything today, in this environment, because of what's happening around the world. But you know, they're putting in place – you saw in the papers today the latest signs of alterations to this restructuring plan. We're hopeful that we're going to be able to move forward and execute that on a reasonable timeframe.

MR. RUBENSTEIN: We have time for two questions or so from the audience.

QUESTIONER: Do you expect the foreclosure plan to actually kick in where we'll see a diminution in the number of foreclosures?

SECRETARY GEITHNER: There are three really important parts to the President's housing plan: One is to help make sure there was additional resources committed to the GSEs to make sure their borrowing costs stay low. That is a necessary condition for this broader objective of trying to make sure that mortgage interest rates come down and stay low. Second is a refinancing program run by the GSEs that would enable, particularly in this environment where private mortgage insurance is no longer available or harder to get, families with higher loan-to-value ratios — because the value of their house price has declined — to refinance to take advantage of the lower interest rates.

That itself will, in effect, make it possible for 3 million to 4 million Americans to refinance who otherwise would not have that ability. The third key piece is the program you referred to — the loan modification program — where we announced the details on March 4th and additional details have been coming out. We're moving quickly to put in place the remaining details of the program, sign up servicers, make sure they're moving quickly. We're putting in place much stronger data provisions so people can see what's happening to modifications on a more frequent basis, more complete basis. But I think it's going to take, probably, a couple more months before people are going to be able to evaluate what's actually happening – what impact that's going to have.

Now, of course, this program is a very powerful program, but it's not going to be able to prevent all foreclosures. A range of foreclosures is still going to be unavoidable. But this is, in our judgment, the best mix of incentives and changes to help address the broader challenges facing the housing markets of the United States. Again, I think the collective impact will be material in helping reduce the risks that you get further declines in housing prices than you otherwise would have had.

MR. RUBENSTEIN: One more question.

QUESTIONER: Because we are the Economic Club and you're in charge of the overall economic policy priorities, I would like to ask you, the United States is already a very big trader in the global economy – number third-largest exporter of merchandised trade as well as manufactured trade – not only to the financial services. When we go to the Congress, we feel some divergence between the priorities that are given to trade — promotion of trade — between the Administration and Congress. What is the priority of the Administration, as Secretary of the Treasury, which is crucial to the recovery? Trade can be an engine of recovery for the United States, and to the countries in East Asia. Thank you.

SECRETARY GEITHNER: Well, I agree with you, and I think it's clear from what the President has said and what he's done that he shares that basic commitment and that basic recognition that, again, our economic fortunes are tied to the fortunes of the rest of the world. It's very important that we're working with other countries to help lay the foundation for more open markets, stronger trade ties going forward. And we will do that.

One of the reasons why, in the G-20 meeting, we put so much emphasis on trying to make sure there were going to be financial resources available to emerging markets on this exceptional scale was, they're going through this very, very dramatic withdrawal of private financial flows, very, very substantial shortfall in external demand. Left unaddressed, that would create the risk that those markets would shrink much more than they need to shrink.

So part of any credible action on the trade front is not just about what we do in terms of future agreements and in resisting pressures for new restrictions in our own markets, but in trying to make sure that economies around the world are growing more quickly, recovery is more firmly established. Again, you have — not seen in decades — a program with this scale of financial force mobilized as quickly with enough potential to provide insurance protection against risk that you have a deeper downturn, induced in part by further weaknesses in emerging markets.

So if you look at not just the scale of resources, but how they're being used by the IMF in new ways, how they're being deployed by the World Bank and the Regional Development Banks in new ways, you know, this is a very powerful program. I think you can see the promise of that program reflected in what's just happened — behavior in markets since they've been announced.

MR. RUBENSTEIN: We are at the end of the hour, so I want to thank the Secretary for his remarks and answers. In following the tradition of The Economic Club of Washington, I present you with an American Eagle from the Steuben Collection. Thank you very much.

TIMOTHY F. GEITHNER

On January 26, 2009, Timothy F. Geithner was sworn in as the 75th Secretary of the Treasury in a ceremony attended by President Barack H. Obama and Vice President Joseph R. Biden Jr. Before his nomination, Secretary Geithner served since 2003 as the ninth president and chief executive officer of the Federal Reserve Bank of New York. In that capacity, he served as the vice chairman and a permanent member of the Federal Open Market Committee, the group responsible for formulating the nation's monetary policy.

Secretary Geithner first joined the Department of the Treasury in 1988 and worked in three Administrations for five Secretaries of the Treasury in a variety of positions. He served as Under Secretary of the Treasury for International Affairs from 1999 to 2001 under Secretaries Robert Rubin and Lawrence Summers. He was Director of the Policy Development and Review Department at the International Monetary Fund from 2001 until 2003. Before joining Treasury, Secretary Geithner worked for Kissinger Associates, Inc.

Secretary Geithner graduated from Dartmouth College with a bachelor's degree in government and Asian studies in 1983 and from the Johns Hopkins School of Advanced International Studies with a master's in international economics and East Asian studies in 1985. He has studied Japanese and Chinese and has lived in East Africa, India, Thailand, China, and Japan. He and his wife, Carole Sonnenfeld Geithner, have two children.