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**Secretary Timothy F. Geithner  
Remarks before The Economic Club of Washington  
As Prepared for Delivery**

Thank you, David. I appreciate the chance to speak to the Economic Club of Washington.

I want to talk today about the global nature of the current financial and economic crisis. I will offer an update on our efforts to bring the crisis to a close and set the stage for a new, more balanced prosperity in the future.

The world economy is going through the most severe crisis in generations. We each face somewhat different challenges and thus are not all in the same boat. But we are all in the same storm.

We now have in place a 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 challenge.

***The Global Nature of the Crisis***

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

We bear a substantial share of the responsibility for what has happened, but factors that made the 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 our current troubles.

Never before in modern times has so much of the world been simultaneously hit by a confluence of economic and financial turmoil such as we are now living through.

The International Monetary Fund now expects the world economy to decline this year for the first time in more than six 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 three to four trillion dollars this year alone.

And those numbers mask grave damage to economies around the world.

Only 17 of the 182 economies followed by the IMF are expected to grow faster this year than they did last year. Some 71--including 30 of the world's 34 advanced economies--are expected to shrink. The collapse of world trade is likely to be the worst since the end of World War II.

Several crucial lessons flow from the simultaneous nature of this crisis.

The rest of the world needs the U.S. economy and financial system to recover in order for it to revive. We remain at the center of global economic activity with financial and trade ties to every region of the globe.

Just as importantly, we need the rest of the world to recover if we are to prosper again here 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 U.S. Now, they are one of its fastest-shrinking.

As a consequence, the community of nations must work together--and that work has already begun--to revive economies around the world and to lay the groundwork for a new, more stable and more sustainable pattern of growth in the future.

During the boom years, we marveled at how globalization was speeding the pace of economic activity and integrating national economies. Now, we are 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 is not simply a more severe version of the usual business cycle recession, the typical downturn in which economies ultimately adjust and stabilize. Instead, it is an abrupt correction of financial excesses that has overwhelmed economies' and markets' self-correcting mechanisms, and so can only be ended by extraordinary policy responses.

### ***The Policy Framework for Recovery***

Over the last three months, President Obama has moved quickly to put in place a comprehensive framework of policy initiatives to restore growth and create jobs at home, and to build consensus 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 actions--investments and tax incentives--alongside the actions undertaken by central banks to reduce interest rates.

Second, it requires a sustained effort to repair the financial system, so that we get credit flowing again to those who can use it most effectively.

Third, it requires the mobilization of financial resources to help directly address the challenges facing emerging and developing economies.

### ***Spurring Growth***

Within weeks of assuming office, the President worked with Congress to enact the largest economic recovery plan since World War II. 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 gross domestic product over where it would otherwise have been by more than 3%.

In just over 60 days since its passage, funds are already at work in communities across the country as highway projects break ground and people see more money in their paychecks.

In tandem with our expansion plan, we and the other nations in the G-20 agreed during our Summit meeting in London earlier this month to muster an unprecedented, cooperative program of fiscal stimulus . The IMF estimates that our combined efforts add up to a \$5 trillion dollar fiscal boost over the three years ending in 2010 and will raise global output by four percent over where it would otherwise have been.

What makes this global program so powerful is not simply its size, but the fact that nations are acting alongside each other to support demand with fiscal policy, which increases the effectiveness of each of our actions. Central banks started earlier in the crisis to move together to reduce interest rates, and those actions are now being matched on the fiscal front.

### ***Repairing Financial Systems***

Alongside these macroeconomic policy steps to support growth, the Administration has put in place a comprehensive plan to restart lending and the flow of credit. These initiatives include programs to bring more capital into the banking system; to help keep mortgage interest rates low and restructure mortgages and thereby reduce the magnitude of potential further declines in home prices; to help revive securitization markets critical to small business, consumer and corporate lending; and to re-start the market for legacy real estate assets.

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

## ***Mobilizing Global Resources***

These two types of programs--to revive economic growth here and in other nations, and to repair our respective financial systems--are necessary conditions for restoring growth among the world's major economies. But these actions need to be complemented by other steps to support trade and to mobilize resources for emerging markets and developing economies.

During our London Summit, we and our G-20 partners agreed that we will make more than \$1 trillion in financial resources available to support global growth and trade. Much of that total will go to the emerging and developing countries, which as recently as the fall of last year accounted for fully 42% of all U.S. exports. That will improve their economic and financial health which, in turn, will help improve ours.

As part of our agreement, the IMF is seeking to immediately raise \$250 billion in temporary financing from a group of countries that does not include the U.S. That amount will eventually be wrapped into a \$500 billion increase in its New Arrangement to Borrow (NAB), a permanent back-up mechanism that provides the IMF with supplementary lending resources which the IMF can lend to countries, such as Mexico and Poland, to mitigate the effects of the crisis.

We are seeking congressional approval to increase our NAB participation by up to \$100 billion, which because of the way it is structured will have no consequences for the federal budget and will not cause any increase in the deficit.

In addition, we have proposed that the IMF make a \$250 billion general allocation of SDRs that will be distributed to all member nations including the U.S. in proportion to their IMF quotas. About \$100 billion of this will go to emerging and developing nations. They, in turn, can use this liquidity as necessary to meet their foreign exchange obligations.

And the G-20 countries have agreed to provide a backstop for the private market financing of trade by providing at least \$250 billion in short-term trade financing over the next two years.

These programs provide immediate benefits in terms of confidence. They will make it possible for the governments of emerging economies to act more quickly to support growth, to repair their own financial systems, and to avoid the type of dramatic falls in exchange rates that were the feature of financial crises of the late 1990s.

And these programs act as a form of insurance policy for the world economy and, thus, for the U.S. economy.

## ***Limiting Future Crises***

As we have moved to put in place this global framework of actions to address the immediate crisis, we have also tried to ensure that we are laying the foundation for a more stable, more balanced and more sustainable recovery.

This requires several things.

First, it requires attention to the composition and quality of growth, within and across nations.

Second, it requires a cooperative effort to lay the foundations for more stable national financial systems--systems less vulnerable to recurrent crises.

And 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 and a recovery is firmly in place.

We need to keep focused on these broader imperatives so that our actions now lay the foundation for a future with fewer dangerous booms and fewer destructive busts. We must ensure that as our economies recover, growth will be on a firmer foundation, more stable and more sustainable.

## ***Balanced Expansion***

A major lesson of the 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 now must be a sustained expansion of our own and the world economy, but that expansion must be better balanced. We must set ourselves on a path so that one country, or 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 more 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. It will require a deep commitment to ensure that the gains of expansions are more broadly shared and that inequality is reduced.

Each of the major economies, including the United States, as well as the largest emerging economies, share a responsibility for achieving this objective. And the IMF has a special responsibility to help us all fulfill our collective obligations by offering independent assessments of our policy efforts, and their impact on a more balanced and sustainable recovery. **Financial Reform**

We are collectively committed to reform our 20th century financial regulatory system to match our 21<sup>st</sup> century financial system.

That means that even as we reform our own financial regulatory systems, we must also reform the global financial regulatory system in tandem. The financial system must perform its task of efficiently allocating capital without promoting excessive risk taking.

We and our G-20 partners have taken an important first step toward these goals by committing to establish and implement much stronger standards for oversight over the financial system in order to limit risk-taking and improve our capacity to prevent and manage future crises. Our aim is to promote a race to the top in global regulatory standards and supervisory practices.

### ***Macroeconomic Stability***

We have employed extraordinary fiscal, monetary, and other governmental policies to deal with this crisis. These are temporary and exceptional measures, and they need to be reversed when they have accomplished the immediate objective of generating recovery.

With this in mind, this Administration has presented a budget plan that charts a path to achieving to sustainable deficits in the medium term, so that recovery is not impaired by concerns about excessive borrowing in the future. We are 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. And we must make critical investments in health care, energy and education to lay the groundwork for a more productive economy in the future with the gains more broadly shared.

### ***Conclusion***

Our fortunes are now more closely tied to 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 the crisis, U.S. exports of goods and services grew in real terms at an annual rate of almost nine percent, nearly triple that of the overall economy. But by the end of last year, our exports were declining at a rate of almost 25 percent per year, the sharpest decline since the end of the Second World War. Our recovery depends in part on reversing this decline. American workers are 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 Dennis Blair, recently testified that the global financial crisis is the greatest near-term threat to this nation's security. He said: "The longer it takes for the recovery to begin, the greater the likelihood of serious damage to US 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.

As I said at the outset, we may not all be in the same boat, but we're surely in the same storm. The bottom-line lesson of the last 18 months is that we as nations are in this crisis together. Collectively, we are weathering this storm but we must also build a better global system.

Today's crisis is unlike any we have experienced for seven decades. The balance-of-payments crises of the 1950s and 1960s, the oil crisis of the 1970s, the debt crisis of the 1980s, or the Asian financial crisis of the 1990s all pale by comparison. Those crises were localized and had their winners as well as their losers. As a result, international cooperation was slower to come and less powerful.

In this crisis, by contrast, we have acted together to put in place a strong framework of policies to confront the crisis on a coordinated basis.

The actions now in place and in the pipeline offer the strongest basis for confidence that we will begin to lay the foundation for global 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. We have started to see some signs of stabilization of declines in output and trade.

These are encouraging signs, but progress is going to take time, and we still face significant risk and challenge. For this reason, it is critically important that we continue to act to strengthen the basis for recovery. We may have to adapt our policies further as conditions evolve, and we need to make sure we provide a scale of support that matches the intensity of the challenge.

The financial world comes together in Washington later this week. This will give us a chance to build on the commitments made by the G-20 in London, and to underscore the commitment of our country to work with other nations to bring the crisis to an end and to put in place a more stable, balanced foundation for growth in the future, not only for the United States but also for the world of which we are a part.

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