International Monetary and Financial Committee

Twenty-Fourth Meeting
September 24, 2011

Statement by Timothy F. Geithner
Secretary of the Treasury, Department of the Treasury, United States

On behalf of United States

Statement by Timothy F. Geithner
Secretary of the Treasury
United States of America

Twenty-Fourth Meeting of the
International Monetary and Financial Committee
September 24, 2011

The world economy is facing new challenges to growth. It is in the midst of the second slowdown of this recovery from the financial crisis of 2008 and 2009, with shocks from the crisis in Europe, Japan's disaster, and oil prices all contributing to increased uncertainty and insecurity in global financial markets.

In order to spur economic growth in the short term, President Obama recently proposed a $447 billion package of public investments, tax incentives, and targeted jobs measures. The President's proposal includes: payroll tax cuts for both workers and small businesses; targeted hiring incentives; immediate investments in infrastructure and schools and the creation of a National Infrastructure Bank; and extension and reform of unemployment insurance to help facilitate workforce re-entry for the unemployed. Without additional near-term support, fiscal policy in the U.S. will be overly contractionary and the U.S. economy will likely grow below its potential in 2012. Private economists estimate that these proposed measures could increase real economic growth next year by around one and a half percentage points and create more than one million jobs at a critical moment in the recovery.

Alongside near term support for the economic recovery, we remain committed to credible steps to restore fiscal sustainability in the medium term. This week, the President put forward a plan to reduce deficits by more than $3 trillion over the next 10 years, more than offsetting the cost of any additional near-term accommodation. This deficit reduction would be on top of the $1 trillion in spending cuts enacted this summer. The President's proposal for $4 trillion in deficit reduction would bring the U.S. into primary surplus by the middle of the decade, resulting in a decrease in the debt-to-GDP ratio from 2015 to 2021. In order to meet these fiscal targets, the President proposed specific reforms to spending programs and called for comprehensive reform of the tax code, including reducing spending through the tax code.

Together, pro-growth policies in the near term and meaningful deficit-reduction in the medium term will strengthen the U.S. economy and preserve sufficient fiscal space for the U.S. to respond to future external shocks.

Sovereign and banking stresses in Europe are the most serious risk now confronting the world economy. The commitments that euro area members have made to one another in the last 18 months have been impressive. But further action to expand the effective capacity of these commitments is still necessary to create a firewall against further contagion. While it is crucial that countries in the periphery undertake real reforms and demonstrate fiscal discipline, these efforts will take time. Meanwhile, European governments should work alongside the European Central Bank to demonstrate an unequivocal commitment to ensure sovereigns with sound fiscal policies have affordable financing, and to ensure that European banks have recourse to adequate capital and funding to win the full confidence of their depositors and creditors. The threat of cascading default, bank runs, and catastrophic risk must be taken off the table, as otherwise it will undermine all other efforts, both within Europe and globally. Decisions as to how to conclusively address the region's problems cannot wait until the crisis gets more severe.

While demand remains weak in the advanced economies, it is essential that emerging markets make concrete progress in shifting to domestic demand to support global growth. China and other emerging market surplus economies have considerable room to boost consumption and strengthen domestic demand, by allowing their exchange rates to adjust to market forces while diminishing inflationary pressures. This asymmetry in emerging market exchange rate policies magnifies upward pressure on those emerging market exchange rates which are allowed to move and where capital accounts are much more open, for example in Latin America.

The imperative remains to strengthen economic growth through continued global cooperation. Now we must all address key imbalances that threaten strong, sustainable, and balanced growth. Fiscal policy everywhere has to be guided by the imperatives of growth. Where deficits and interest rates are too high, governments have no choice but to consolidate. Where fiscal positions are stronger and interest rates low, some countries have room to take more action to support growth, and others can at least slow the pace of consolidation. Where more fiscal reforms are necessary to achieve long-run sustainability, the emphasis should be on policy changes that take effect over the medium term. As for monetary policy, inflation risks are on average, though not everywhere, less acute. This means some central banks will continue to ease policy, while some will keep rates lower longer and slow the pace of expected tightening.

We have made significant progress in strengthening the functioning of the International Monetary Fund (IMF). We have agreed to enhance the legitimacy of the IMF though essential reforms to the Fund's governance structure in order to better reflect the realities of today's global economy. The IMF's increased lending in the wake of the crisis and since then has been crucial to the global recovery. We have also bolstered available IMF resources, including through the New Arrangements to Borrow (NAB), and expanded the global financial safety net with the introduction of new precautionary lending facilities. The Fund is closely collaborating with the G-20 in its Mutual Assessment Process and analyzing necessary adjustments to tackle large and persistent external imbalances. But the Fund still falls short in assessing exchange rate policies. The Fund's surveillance would benefit from the publication of an External Stability Report that provides a frank assessment of exchange rate misalignment and excessive reserves accumulation and progress being made in reducing global imbalances. We call on the IMF to set forth a strong and comprehensive set of proposals to address these deficiencies.

We have acted decisively to give the Fund the resources and facilities to respond to crises. Now is the time for the Fund to take a leadership role and focus on what counts in strengthening the international monetary system.