Transcript

Transatlantic Economic Cooperation and the Global Economy

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Sebastian Mallaby

Great to be here at Chatham House; my name is Sebastian Mallaby. I am a senior fellow at the Council on Foreign Relations in the US. Like the speaker, who I will introduce in a second, I sound English but I am American but that's a good metaphor for transatlantic relations.

I've got three quick housekeeping announcements; one is that this is on the record. Never mind that Chatham House stuff, on the record so if you plagiarize her ideas, you have to actually attribute them to her, give her the credit for her insight and brilliance. Second, people can comment on Twitter, using #CHEvents. Please put those iPhones, BlackBerrys and things that go beep, beep on silent mode because we don't want to hear them.

And finally, I want to introduce Caroline Atkinson who is not only a distinguished and senior member of the US government but a good friend of mine. In addition to sounding English and being American, she has worked for a couple of the same organizations in her varied career at the Council of Foreign Relations and The Washington Post. She has also had a series of senior positions at the US Treasury and International Monetary Fund and now in her position at the White House, as the deputy national security advisor for International Economics.

So, without further ado, Caroline, the lectern is yours. We look forward to your remarks.

Caroline Atkinson

Thank you very much. Yes, one of the neat things was when I was saying to colleagues that I was going to be coming here and speaking at Chatham House and one said, 'Chatham House! Chatham House! We're always talking about Chatham House rules, and now we're actually … there's somebody who's speaking at Chatham House.' And I said, 'Yes, but not under Chatham House rules.'

So I want to thank, first of all, Chatham House for inviting me to speak. As you know, Chatham House has been helping to advance the understanding of international events for over 80 years and it's a very important role as an international policy-maker and an American policy-maker in the past and an American policy-maker now that is a vital resource for us as well as for business leaders and civil societies.

So I want to talk today about the United States government's approach to economic engagement in transatlantic relations, economic engagement with Europe. Obviously, our relationship with Europe is a bedrock alliance, a key alliance and it covers all areas, defence, diplomacy, security as well as economic and trade ties and global issues. We work together to fight Ebola, we work together to promote democratic values and transitions around the world and we work together on development. But I'm going to focus on what I work on, which is economics, defined broadly to include trade and investment and energy and climate.

And I want to say that I believe under President Obama, we have renewed and reinvested in the transatlantic alliance and are working to go even further. We have enormously deep trade and investment relations between us, as well as shared values. We are working, as you know, to take that to another level, if you like, with the Transatlantic Trade and Investment Partnership or TTIP, as well as working together to modernize NATO and working together to address emerging threats around the world.

I want to start, there are three key areas, I think, in which we think about and I work with and on issues with my European colleagues. The first is about what's perhaps the most important goal for economic or, certainly, for all of our countries and, certainly, President Obama's chief goal, which is to promote what he is calling middle class economics. It has a different ring in the United States. It's really about making life better, promoting jobs and incomes and security for ordinary people. And this involves, in today's globalized world, having a stronger global economy.

The second big area where we all work together across the Atlantic is on promoting rules and norms for international behaviour, international trading and investment, climate and energy behaviour that respect our values and that promote and enhance our values. And then the third is, as I said, that we always come back to work together, both I with British colleagues but also with those in Brussels and in other parts of Europe.

Just turning to the first issue about global growth and, of course, we had good news this morning from Europe. But I joined the White House in 2011, at a time when the first shock and response to the shock of the 2007/2008 crisis had passed and when there was, looking back, a premature desire to normalize policy at a time when, as we discover looking back, the economic situation had not really normalized.

We had worked in the United States very closely with Europe to use the international fora, the International Monetary Fund, the G7 Group, the G20, which was elevated to leaders level to bind together and mend the global economy after the 2007/2008 crash. But once the world's economy was stabilized, views began to differ about the next big project and some saw the next big economic project as the importance of reducing debt burdens, reducing deficits and returning to normal.

In the United States, we pressed for continued efforts to continue to focus on growth and jobs and in the early days of recovery of 2010/2011, this was not the popular mantra. By now, it is and I think that represents an important shift as the depth and the extent of the financial crisis and its impact has become clearer.

So we managed to halt the crisis. We managed to stabilize economies but we have not yet got to the desired G20 leaders' goal of strong, sustainable and balanced growth, which was agreed in September 2009 at Pittsburgh. Even six years after the crisis, in the United States, we have had consistent, steady recovery. We are well above the previous peak levels before the crisis. Overall unemployment is returning towards more normal levels.

But the overall performance of the global economy continues to fall short of aspirations and that is of deep concern to the United States. That's because our economy is increasingly integrated with the rest of the world, both financially and through trade links and the fortunes of all of our economies are tied together. So we believe that this goal of strong and sustainable and balanced growth is one that must be joined in common cause.

We also believe and we put it in our national security strategy, the president's national security strategy, when he released it last week, he described that America's growing economic strength is the foundation of our national security and a critical source of influence abroad.

This is important also across the Atlantic and important for Europe. With Europe now representing over 23 per cent of the world's output, it's clear why it's very strongly in the United States' interest to have international policy efforts with Europe. We think that it's important to have all of the major economies pulling in the same direction to support job creation, reduce inequality and promote this growth. We believe that even with today's more cheerful figures out of Europe, we still see in the latest IMF update for the world economic outlook, that their estimates of global growth have, yet again, been revised downwards.

They've marked them down and expect growth this year of three and a half per cent, which is 0.3 percentage points less than had been expected last October and that, in turn, had been marked down from earlier in the year. And it's important to remember that this growth for 2015, these latest IMF projections incorporate the impact of somewhat stronger US growth that they're projecting than they had before and, most importantly, cheaper oil.

Now, we believe that – and I think it's the consensus view whilst nobody expected oil prices to drop as sharply and as suddenly as they did – the main driver of that is increased supply, much of which has come from the United States, rather than demand. And it operates, as you know, like a kind of tax cut for oil consumers, which include, importantly, Europe. And still we produce oil, we're a net consumer, net importer. So cheaper oil is expected to give a big boost to the European and to the global economy but even with that boost, growth is not as strong as we would like to see it.

And a key part of the weakness is a still tepid recovery in the Euro area. The IMF now expects the Eurozone to grow by 1.2 per cent. I believe the latest EU Commission figures are about 1.3 per cent. That's a lot better than a contraction. So the glass is half full in that sense; it's half empty in the sense that it's only marginally above estimated trend growth for the region and so it will not be able to bring down unemployment rapidly from it or, indeed, much at all from the near record levels that it is in Europe of 11 per cent. Nor will it have a big impact, most likely, on youth unemployment, which is a particular concern to European policy-makers and averages across the region over 20 per cent.

The other issue is that this growth performance in Europe is very diverse. There are some countries and Germany, as today's figures showed, is one of them that are continuing to perform fairly well. Germany has an impressive industrial machine. There are other countries that have – many of them on the periphery of Europe, although not all – that have been making big efforts to curb what had been excessive reliance on borrowing and so on and implement structural reforms, where growth is much weaker, unemployment higher and as we see in the political economy, this can lead to tensions.

This week, of course, there are many eyes on Greece and we believe that the stakes in finding a resolution there are high. We are pleased by words suggesting compromise on both sides. We think that a path forward will require flexibility on all sides and that to the extent that the new Greek government can hold on to some of the helpful structural reforms that have taken place and present a credible plan for more reforms, which, in some areas, I believe they're interested in doing to help make the society fairer and get the country back on track, it's also important for creditors to take into account the fact that Greece has had a very sharp drop in incomes, real wages and output as well as big rise in unemployment.

Now, of course, Greece's fiscal and structural problems in many ways are so extreme that they're not, perhaps, a useful guide in figuring out and shaping comprehensive solutions for Europe. But I think they are a reminder of the difficult balance that Europe is seeking to strike between pushing forward with difficult structural reforms and supporting broader growth. The structural reforms are needed; I think many governments are recognizing that. President Hollande in France, Prime Minister Renzi in Italy have both outlined ambitious, and are beginning to implement ambitious structural reforms to promote productivity and competitiveness of their economies.

But structural reforms may often have an impact on the supply side. You still need to have a matching impact on the demand side and as the G20, which is the group of countries that represent about 80 per cent of global GDP, their leaders met in Brisbane last November and agreed that there was a global shortfall in demand.

It's very encouraging in Europe, which also faces the issue of deflation, which I know has been in the news here as well, that the European Central Bank is continuing to take forceful action to support the Eurozone's economy. But as Mario Draghi himself said several months ago, and other central bankers quite often say, it's not possible for monetary authorities by themselves to promote growth in their economies. They have – especially the ECB – has a very specific target around inflation.

In the United States, the Federal Reserve has a so-called dual mandate. But no central bank governor or leader likes to claim that they can do it all on their own and many of them look to other authorities, national authorities to promote the structural reforms that can increase supply and also fiscal support that can provide the other counterweight.

I was discussing with some colleagues and friends, including Sebastian, the issue of fiscal dominance, which is a term that when I worked at the International Monetary Fund, we often used for the fact that if a government was really spending way beyond its means and was increasing its deficit and borrowing to an extreme degree, as much as the central bank might try to rein in credit expansion and reduce and hold the limit on inflation and maybe try to support the value of its exchange rate, the dominance of fiscal policy would make that extremely difficult. And in the end, many central banks around the world, in the old days, would resort to financing the fiscal deficit.

I think there is a kind of reverse fiscal dominance in evidence across some parts of the global economy now, whereby fiscal authorities have been really concerned about – and rightly concerned about – growing debt burdens and then concerned to do what they can to constrain deficits to address these debt burdens. But that drag on growth from contractionary fiscal policy has a dominant role over and is, in a sense, in opposition to monetary policies' attempts, importantly in the United States where there was some success, also in Japan and in Europe, to boost economic growth. So it's really important that all the policy-makers are kind of working together towards that goal of growth.

Another important area where we in the United States maybe took some lessons from earlier crises after this crisis was strengthening the banking system and dealing with that key structural element that is needed to support growth and a strong and stable economy. In the United States, there was a big push, driven a lot by the markets, to strengthen bank capital and improve and tighten regulation, which dealt at an earlier phase of this cycle with that issue and left banks and financial institutions in the United States readier to extend new credit to support investment and growth than was the case in many other areas, including in a lot of Europe, although, now there's a lot of work going on and has been a lot of work going on in the banking area.

So, on the economy, we believe that there has been some space. Now there is some fiscal space to move. There is more space, the more to support growth, the more that through investment, which both supports demand and supports supply. There is more room for structural reforms when you have stronger growth. Maybe, one of the optimists that I was talking to yesterday was positing that there will be more growth in Europe that will allow more relief and support more structural reforms but also some further easing and flexibility on the other side. And we do see it as very important to have all of these elements working together. It's not either structural reform or sustainable fiscal paths; you can have both.

Turning now away from the urgent challenges that I believe we do face to restore a strong European economy and treasury secretary, Jack Lew, referred to the danger of a lost decade in Europe and I believe that others here have spoken about there have already been, after the crisis, a number of lost years, if not quite a decade yet. So it is, I think, of great importance to move there.

There is also an enormous opportunity across the Atlantic to deepen our trade and investment ties. Now, they're already huge. I think since the end of World War II, we've supported each other's growth and we have the biggest economic partnership. The numbers have a lot of zeros at the end. I could never remember, between the United States and Europe, we refer to trillions and billions. I think one has three more zeros one side of the Atlantic than the other. But they're big anyway.

And we share about a trillion dollars in trade every year and four trillion dollars in investment and 13 million workers on both sides of the Atlantic owe their jobs to this transatlantic relationship. I think it's important to bring it back to that key goal of providing a livelihood to ordinary people and a better livelihood. This system of close trade and investment ties has helped, more broadly, has helped to promote broad-based growth across the Atlantic but also globally and to lift many out of poverty.

Now, we're moving in the United States towards final agreement or closer to final agreement, closer to agreement with our key trading partners in the Asia-Pacific region but we're also moving forward rapidly with negotiations between the United States and the EU on concluding the transatlantic trade and investment partnership. We're moving towards closer agreement there.

The 29 nations, the 28 in the EU and the United States represent over 45 per cent of global GDP and almost that in global trade and what we hope is that the rules that we will jointly establish through this agreement will help to set the standard for future trade agreements. As you may know, the United States is, in the agreements that we are negotiating, the TPP agreement with the Pacific region, we are including for the first time in the core of the agreement, enforceable disciplines, as they are called, on labour standards and on environmental standards as well as in some other areas that are relatively new to make the playing field more level for, again, state owned enterprises in some countries.

We are also working with Europe on important global or WTO based agreements such as the ITA, the Information Technology Agreement, where we both stand, the economies of Europe and the United States stand to gain a lot and so does the world in boosting trade in all of the new part of the new economy in information, communication and technology products. And we're negotiating on the trade and services agreement, which is recognizing that the traditional coverage of trade, which was basically in goods is more and more in need of broadening to services as services take up a bigger part of all of our economies and services can increasingly be traded across borders.

The other thing that I want to say about trade, investment and growth, it's extremely important and I believe it's getting more and more attention amongst policy-makers but it is something where everybody needs help in trying to figure out which are the best policies. It's becoming clearer and clearer that we need not just to deliver growth but we need to deliver inclusive growth. We need to deliver growth that helps, as I said earlier, the regular person, the ordinary person, the middle class in America and the ordinary worker in Europe and not just growth that supports at the high end of the income scale.

This need for inclusive growth, I think, has been emphasized by the fact of unemployment, which, of course, is particularly corrosive for those who are unfortunate enough to lose their jobs and find it difficult to get back into the labour force. But it's also important for ordinary working people as their incomes and their household incomes have not kept pace with the kinds of gains that there have been in the overall economies, nor with the expectations and aspirations and hopes of these people. So that is a very important challenge that faces, I think, all of us on both sides of the Atlantic.

I just wanted to mention briefly that another key area where we cooperate and where our alliance is really important is on what regulators sometimes call hardening the financial system or strengthening the financial system so that it's better able to withstand potential shocks. It's important in a world where things do change rapidly to have a resilient system and that means resilient to take care of people who may, at some point, have as I mentioned, lose their jobs or have difficult family circumstances. But it's also important to have a resilient financial system that doesn't end up pushing big costs onto taxpayers. We have worked closely together across the Atlantic on improving financial regulations and strengthening financial systems in each of the areas and one of the important areas that affects both sides of the Atlantic is moving on agreement to make the world's largest systemic institutions easier to resolve in times of stress.

We've also, in this financial area, been working together on addressing tax avoidance. Obviously, tax evasion, and the UK was a leader, last year, in 2013, in pushing at Lough

Erne for focus on improving information flows amongst tax authorities so as to make it harder to evade taxes. And we're also working together under the OECD umbrella on the BEPS Project, which stands for Base Erosion and Profit Shifting, which is when companies take advantage of different tax laws and tax practices to shift their profits around so that they can pay the lowest taxes and we believe that we need to set the right incentives for companies so that they focus their productive activities where it makes most sense economically and from a business point of view and that that's also where they pay taxes, where they get their profits.

I just wanted to say, briefly and you may or may not be interested in asking questions about that but I want to leave time for that, that a key area, which has just become more and more important and I think has seeped more and more into the mainstream economic debate, is climate change. Europe has a strong record of focus on this issue, huge strides in promoting energy efficiency and the United States, certainly under President Obama, is also I think now a leader in promoting the response to climate change. Both the development of resilience – and I mention resilience in the context of financial institutions – it's extremely important, as we've seen, not just in places like the Philippines, with the typhoons but also in the most developed, perhaps and intensive industrial and wealthy area along the New York and New Jersey shoreline, where Hurricane Sandy was able to wreak considerable damage.

So building resilience is important; understanding better about what weather events may occur, which areas are susceptible to them but most importantly, acting and taking actions to limit our energy usage and to limit our emissions, I mean, to make our energy usage more efficient and to limit emissions over time. The president has taken a number of steps that are open to him through regulatory action, pushing for more efficient power plant rules and as you may know, reached a very important agreement with China, the largest current emitter of greenhouse gases last November to move jointly and to do a joint announcement of their goals in the climate area.

So this year is a special year for action and transatlantic partnership on the action to address climate in the run-up to the Paris COP, Conference of the Parties, the important Paris meeting that takes place under the UNFCCC in December this year.

So, just to sum up, the president is meeting all the time with his European counterparts. Just earlier this week, he met President Merkel. A couple of weeks ago, Prime Minister Cameron came here; obviously, he will be there for the G7 summit. I am also, as his representative in the G7 and the G20 and Sherpa as we call it, constantly meeting and talking with my counterparts.

This partnership is one that strengthens both sides and that both sides need to use to strengthen the other and as long as our economic strength at home and Europe's economic strength at home is central, as I believe it is, to national security and the success of our economies also depends on the success of our economic engagement around the world, we will remain indispensible allies in addressing the multitude of challenges but also opportunities that face the global economy and by economy, I include the area now of climate. Thank you.