

Transatlantic Economic Cooperation and the Global Economy

Caroline Atkinson

Deputy Assistant to President Obama and Deputy National Security Advisor for
International Economics

Chair: Sebastian Mallaby

Paul A. Vocker Senior Fellow in International Economics, the Council on Foreign
Relations

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10 St James's Square, London SW1Y 4LE T +44 (0)20 7957 5700 F +44 (0)20 7957 5710
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Sebastian Mallaby

So Caroline, I want to point out something there. You used a phrase; at least once you said you are doing things on behalf of ordinary people. Had you read the Financial Times today, you would have seen that that phrase has been banned from British political discourse so we are still two countries divided by a common language. In British political discourse, according to Jonathan Powell on the op-ed page of the FT, you say, 'Hard working families, not ordinary people,' okay? So next time ...

Caroline Atkinson

I was adapting my English, my English language usage.

Sebastian Mallaby

Then maybe British usage has caught up in America.

Caroline Atkinson

Yes.

Sebastian Mallaby

I want to ask one serious question and I want to also get members of the audience in so I'll keep it to just one. A serious question is this, you know, you're discussing economics, we're sitting in a foreign policy research organization and you are better placed than anybody to talk about that intersection between economics and international relations. And from where I sit, it strikes me that this is a nexus which has become more important and particularly the use of economic tools in statecraft, thinking about sanctions, whether it's Iran or Russia and probably lots of other things. Perhaps you could just talk about, since you're already at the coalface of this, do you feel as though economic tools are more important to foreign policy than in the past or is that an optical illusion?

Caroline Atkinson

I'll start with a counter-factual, maybe, one huge economic tool after the Second World War was the Marshall Plan and I think everybody would agree that that was an enormously important tool of statecraft as well and of driving foreign policy and other alliance. But I do agree with your premise, which is that as economies have become more integrated globally and I mentioned the trade and investment figures and also the number of hard working families that depend on those trade and investment flows, it makes economics an integral part of foreign policy and diplomatic policy and there are times when it's more central to a relationship, times when it's less central to a relationship.

But certainly, if we are – just on a sort of very granular basis – if a foreign leader is visiting the United States or if President Obama is visiting a foreign country, there is always a piece of the discussion that is about our economic relations, our bilateral

economic relations but also our relations in the broader global economy. So in that sense, I think, it is a key and central part of foreign policy and national security.

Sebastian Mallaby

Okay, so let's open it up and there will be roving mikes over here.

Question 1

Hello, James Bowden, I'm a journalist in Chatham House and also one of those rare hyphenates, British-American.

Caroline Atkinson

Not so rare.

Question 1

Apparently not so rare in this room. I've seen a lot of briefing in the European press about Greece from the EU officials, German officials saying the spillover effects won't be very severe this time if there's a Grexit. I've seen some briefings in the American press by American officials saying actually, there will be quite severe contagion.

It seems to be an important question because there seems to be negotiations of different assessment by Greece and Germany. Greece seems to think that Germany has got more to lose and Germany seems to think that Greece has got more to lose.

So I'd like to ask you a question; it also relates to Sebastian's point about the economic threat, a security threat as well, eventually but I'd like to ask you this question this way: on a scale of one to 10, how severe is the threat from Grexit, if it happened?

Caroline Atkinson

Okay, I'm not going to answer on that scale but I will say that we believe it's strongly in the interests of Greece and the Greek people and Europe, more generally, and probably the global economy that Greece and its creditors work out a compromise that enables Greece to stay in the euro and to thrive in the euro and we believe that that will be the best outcome. And I believe Chancellor Merkel has made some comment to that effect earlier this week, when she was speaking in the United States. So I think that's what everybody – well, certainly what we feel – is a very important goal of the discussions that are going on now.

Question 2

Thank you for a fascinating presentation. I just want to ask you a question, which you kind of alluded to in a way about what's really wrong with the Eurozone and I put it to you the real problem is that our German friends are far too focused on trying to get their debt level down to 60 per cent of GDP, instead of focusing on reflation in their own interest but in the interest of the Eurozone and, indeed, Europe as a whole, which, in fairness, is a

major marketplace for Germany and it remains the root problem in the European economy. There is no economic policy apart from still this rather economically difficult to understand passion for fiscal restraint in that kind of context.

And just a final question with regard to Greece; I mean, Greece's debt level is, effectively, un-repayable. I don't know whether you are aware the European rules that will now start to kick in, which require Greece – which it's clearly not able to do – to make further dramatic cutbacks. Everybody knows this can't be done so we're in this permanent process of denial. Really, I suppose I'm asking you to deal with a very politically contentious issue in an unfair way but I'm putting it to you anyway. Thank you.

Caroline Atkinson

Thank you, yes, right. I think it's dangerous ever to assert that a debt level is unsustainable and it's also important to remember that when people talk about a debt burden, there are two sides of it. One side of it is the debt level and the other side of it is the size of the economy. So it's important also to think about growing an economy so that it is better able to service debts and it's also important to... and I think that Greece has moved into what's called a primary surplus so that it is more than covering its normal expenditures with revenues but does pay some of its revenues, obviously, in terms of debt servicing and interest.

And there is a question of how much into primary surplus, how much more fiscal constraint is necessary to put Greece on a sustainable path and I expect that will be something that will be discussed.

Going back to your point about a European... I mean, I think it's very difficult to develop the kind of political consensus that you need for the economic support across regions that may sometimes be necessary in a monetary union and that comes more naturally, although not completely naturally for nations. I live and I am an American in a federal system, which is very different from the British system and so there is much more devolved state expenditure and choice of what you do and minimum wages are set at a state level as well as the federal level and so on.

So, it's possible to have differences but you also need to have ways of being sure that everybody is playing for the same goal. Certainly in Brussels there has been a focus on balance, which has tended to push more on deficit than on surplus countries and this is something that is, I think they have slightly asymmetric rules and it's understandable that people in some countries maybe don't want to be supporting people in other countries unless they understand why that support is ultimately in their own interests. And the gains from having the single currency need to be described and shown so that people understand that it's worth, that you have some average policy like an average monetary policy and everybody needs to work in their governments to, and in their countries, to make that something that works for them.

Sebastian Mallaby

The question was also about what looked from the outside to be a win-win. So it's one thing to say the Germans don't want to pay for the periphery and make transfers beyond

what they're already doing; we get that. But when it's a question of Germany spending, as you said in your talk, on investment domestically, which will be good for them – you must have had these discussions and looked them in the eyes – can you say what's the reason it doesn't work?

Caroline Atkinson

It's hard to speak on behalf of the German government, but certainly what I believe and what we believe is that more spending on investment, good and well designed investment and maybe some support for consumption would be important in helping to reduce Germany's own large imbalance on its trade and would help to support demand elsewhere, not necessarily demand in other parts of Europe, although it might be but demand in the rest of the world.

That's why we do believe that – now, we come at this from a very different place and I know that in Germany, people are very concerned to hold on to competitiveness gains. And as I think I mentioned, their industrial machine and export machine is just one that draws admiration and they should continue with that. But it's also important to have the other side of it and if Germans choose to save a lot and to put their savings overseas, then that means that others need to be borrowing those savings and putting them to work there. So there's a kind of, how do you balance these things up issue.

Question 3

Patrick Graham from Reuters. There have been the beginnings of some noises from the most recent G20 meetings about some nervousness in the US over the extent of the dollar's gains. Do you think that's happening? Do you think that people are beginning to be a bit concerned by it? Any impressions?

Caroline Atkinson

Well, we have a pretty strict rule, which I loved when I was in the Treasury Department, that the treasury secretary is the spokesman for the United States on the currency. So I'll just limit myself to repeating what he said earlier this week, which was that we believe that domestic policy, like monetary policy, should be used for domestic reasons. We believe that the move towards and general adoption of flexible market determined exchange rates is in the interests of each of our economies and the global economy but that we would... I think he expressed that he would take very seriously and did take very seriously any attempt by a country to push their exchange rate in a certain way in order to gain an unfair trade advantage.

Question 4

Majid Jafar, CEO of Crescent Petroleum and a member of Chatham House. So looking at transatlantic economic cooperation for bringing stability and inclusive growth to other parts of the world, and in particular the Middle East, which, unfortunately, is a big source of instability at the moment and has failed to deliver those objectives. And of course, the Arab Spring and the turmoil and the conflicts have been making it worse and, particularly, the issue of youth unemployment. The ILO report of three weeks ago saying

it's the highest and fastest growing rate of youth unemployment in the world, 30 per cent and growing and some pockets 60 per cent. US and European economic engagement is almost absent at the moment, I would say. There was the Deauville Partnership, which went nowhere fast and now there's more military engagement for obvious reasons, not much on the economic side.

There is a lot of capital in the region but there is a lack of the knowhow on the right sort of economic reforms and how best to direct that capital and there are those, including myself, in the business community in the region who have been saying, 'We need a Marshall Plan,' but not funded by the US or Europe. But that sort of technical assistance and knowhow on transitional economics would be extremely useful. What can the US and the transatlantic alliance do? What is it doing that perhaps we're not aware of and what can it do to try and help a softer landing for some of these big transition economies in the Middle East and North Africa?

Caroline Atkinson

That's a very good question and I want to push back a little bit on the idea that the Deauville Partnership went nowhere. Because I was involved in working a lot with the transition economies in the Middle East and North Africa and with their partners, both in the Gulf and in the G7, including, obviously, the big European economies and the United States. And we did focus a lot on the importance of technical engagement and engagement in areas such as small business development and entrepreneurship and business regulation and in the United States, we set up an Egyptian-American enterprise fund that the Congress funded precisely to – and a Tunisian-American investment fund – to look for investment opportunities and stimulate investment opportunities in those two countries.

We also tried to deepen our discussions on trade, in particular with Tunisia and Egypt and, to some extent, with Jordan because of a belief on our part – and, I think, a matching belief in many of these economies – that, really, as you said, the funding is kind of around in many cases in the region but what is needed is the environment that will encourage investment, encourage business and entrepreneurship and provide employment and we wanted to work on that.

Now those partnerships, those meetings continue. Another effort that Europe and the United States worked on was getting membership of the Middle East and North African, more of the Middle East and Mediterranean, some Mediterranean countries into the EBRD, which although it's called the European Bank for Reconstruction and Development, did a lot of work with the private sector developing that, as you know, in the transition economies after the breakup of the Soviet Union.

We felt and, actually, they have had teams that have started offices in these countries to try to promote that kind of financing for investment and business reform. And you have the nice thing of the World Bank's investment performance schedule that countries will want to improve their performance on.

We produced a lot of work, there were some good reports, including from the EBRD, about just comparing the number of steps you had to take to set up a business, looking at

the costs of trade because the other big thing about the Middle East is that it's quite an autarchic region, it doesn't trade much with the rest of the world. There is some figure like all of the 400 million people or whatever in the broad region, the exports from there – non-oil – are equivalent to the exports of Belgium, a tiny country.

And so, we believe that this kind of economic integration is really the way to provide most hope for employment and growth going forward. Now, the other side of that is that it requires domestic changes and you need a kind of thirst in the region and a thirst on the part of government to engage in that, which you saw after the transition in Europe, in Poland and other places. And so, this is something that has to be done internally; it can be supported but it has to be home-grown in that sense.

I will say that in Tunisia, there have been remarkable successes and none of these transitions are easy; they're bumpy but there have been elections and there have been changes in economic policy. There has been support from the IMF, the World Bank and other countries, including through the Deauville Partnership. So I don't think it's a completely monochromatic picture there.

Question 5

Vasuki Shastry from Standard Chartered Bank. You've been very polite in describing what Europe needs to do to achieve full economic recovery but if you look at the Obama administration's pivot to Asia, as reflected in the fact that the TPP now is on a faster track, likely to be completed by the end of the year and, perhaps, the TTIP not going to see the light of day, even the end of next year. Is this a signal that the US foreign and economic policy is actually focused, in the future, looking at Asia rather than Europe?

Caroline Atkinson

That's a good question, Vasuki. First of all, I think the TPP, it's not so true that it's on a faster track but the track began a lot sooner. It began, I think, almost a decade ago and moved very slowly at first. It was just a few countries, it gathered a lot of pace under this administration and then, particularly when Canada and Mexico and Japan all negotiated to join in the discussions. I expect that TTIP will actually move more quickly than TPP but it began later.

Obviously, the Asia-Pacific region is a very dynamic region. We like to use the statistic to explain to people in the US about why we believe the trade agenda is in the interests of hard working families as well as business and farmers and everything, this statistic that 95 per cent of the world's consumers live outside the United States. So if we're producing a lot of products from food to high-tech items to other products and we want to sell them, then we'd better look overseas as well as just domestically.

But I mentioned the enormously deep relationship that we have with Europe, both investment and trade and we expect that to continue, we want it to deepen. We do believe that Europe needs to grow more rapidly. We do believe that it's important for, we very much hope that there will be a stronger recovery in Europe for the economic health of Europe, for the benefit of our trading relationship, that it's more balanced and also for the

kind of political issues that we want to address or we believe it's important on both sides of the Atlantic to address this issue of inclusive growth.

It's not useful to lecture countries on what they should do, even though we're often accused of that but what is important is to try to explain. And now we do have, in the United States, an example of recovery from crisis that looks solid, that looks strong, that is not relying on an increasing debt burden but is relying on growth with a stronger fiscal support as well as monetary support. Our commerce secretary, Penny Pritzker, has a badge that she wears that says, 'Open for business,' and I think we're open for business with Europe and with Asia and the Asia-Pacific.

Question 6

My name is William Crawley, member of Chatham House. You alluded briefly to the unequal distribution of the benefits of growth where growth has occurred and this is very much a global phenomenon, highlighted by books like Stiglitz's *Price of Inequality* and, more recently, by Thomas Piketty. It doesn't seem to figure very centrally in global policy making. Is that the case?

Caroline Atkinson

It's an interesting question. I think it figures, increasingly, I would say, in global discussions, discussions amongst leaders about global policy and that may be because, for different reasons, it's become an issue in different countries. It's certainly something that President Obama and that our administration is very focused on and something that he will discuss with other leaders.

One way in which it was perhaps discussed in the G20 is when we were looking at, certainly, household incomes, there is a big problem, of course, of female paying wages and also labour force participation. And in the G20, we did reach agreement on a goal expanding of female labour force participation, not just having the aspiration but putting in place the kinds of policies like family leave policies and childcare that would support that.

We also have moved in international policy-making to bring together employment ministers and labour departments that typically will look more at these issues and finance ministers. Although they did not meet jointly last year, they will again this year under the Turkish G20 presidency and we've been big proponents of that in order to promote a kind of cross-pollination of ideas between those that are always thinking about the issues of labour and employment and promoting opportunity and skill training and so on and those who are more involved in the financial world and global macro policy-making.

So, we haven't figured out what to do but I think that there is more focus on attempting to do that and if you look at some of the G20 statements, there's also talk about the importance of collective bargaining, minimum wages and so on, which was not there a few years ago.

Sebastian Mallaby

So, we've all seen that Caroline Atkinson is not an ordinary American economic official; she is a hard-working and perceptive and articulate one. Caroline, thank you very much.