Remarks of Alan B. Krueger
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Ministers, Mr. Secretary General, and Mr. Director General.

I am honored to be here today to represent the Treasury Department of the United States as we discuss the coordination of policies and programs for promoting employment in the Americas. As we pass the one-year anniversary of the financial panic that pulled the U.S. and world economies into a deep recession, it is worth reviewing what steps the U.S. took and how these have affected all the Americas; the important steps taken by our global partners; and how these have combined to keep the recession from spiraling into something much worse. Because the recent global slump has been much more synchronized and widespread than previous downturns, coordination across countries has been a precondition for individual governments' policy responses to be effective. Fortunately, such coordination has been a hallmark of the responses seen to date.

We have been reminded over the past year that financial markets are inextricably linked to the job market, and that an unsound financial system can decimate the economy, causing massive employment declines and widespread unemployment. Unfortunately, we have rediscovered all this in the hardest way possible. In the U.S. we are seeing signs that the financial system is recovering.

- Measures of stress in interbank lending markets, like the spread between the 3-month LIBOR and the 3-month U.S. Treasury bill rate, have come back down to levels not seen since August 2007.
- Banks' borrowing costs have fallen by more than half, and major banks have raised $54 billion in new common equity, a sign that confidence in the banking system is improving.

- Borrowing costs for large U.S. businesses have fallen and investment-grade corporate bond spreads over 10-year Treasury yields have declined by two thirds and are at about 100 basis points. This is about where they were in late 2007.
- Credit is more available to consumers and small business; issuance of asset-backed securities (ABS) fell nearly to zero in October 2008 but has averaged about $12 billion per month since March.

Just as the imbalances in the financial sector ultimately led to the downturn in the broader economy, the recovery in the financial system is setting the stage for a broader U.S. recovery.

While no recovery follows a perfectly straight line, we are seeing definite signs in the U.S. that economic activity is picking up.

- Consumer spending has turned up in the current quarter and is on track to add nearly 2 percentage points to Q3 GDP growth.
- Industrial production rose for 2 straight months through August, the first time since the recession began in December 2007.
- Housing starts are up, along with home sales and home prices.
- A broad measure of equity prices – the S&P 500 – is up more than 50 percent since reaching a trough in March.

Now, even as we see signs of recovery, it is also plain that the challenges that remain are very severe. Though the pace of the decline in jobs has eased, the U.S. job market is still contracting. Just last week we learned that:

- The unemployment rate in the U.S. rose to 9.8 percent, the highest level since 1983.
- The economy lost another 263,000 jobs, bringing the total loss in jobs to more than 7 million (a 5.2 percent decline) since the recession began.
- The Administration has recognized that the severity of the recession that President Obama inherited would take its toll on the labor market; indeed, the most recent update of our budget forecast projects an average unemployment rate of 9.8 percent in 2010.

The signs of recovery we have seen and the further improvement we expect to see in the U.S. are due in large part to the array of policies that the government has put in place. These policies were enacted over a broad front; this breadth was necessary, and reflected the fact that any attempt to stabilize the real economy would have failed absent a well-functioning financial sector. Hence, we first moved to develop measures to bolster confidence in the financial sector and restore credit flows. In addition, we moved to shore up mortgage markets and find ways to help responsible homeowners remain in their homes. Finally, in February we enacted the American Recovery and Reinvestment Act of 2009. The Recovery Act provides for a mix of tax cuts, transfer payments, and infrastructure development that totals close to $800 billion dollars. A major component of the Act is the unprecedented modernization and extension of Federal unemployment insurance benefits launched by Secretary Solis, which has provided crucial support to those thrown out of work (both through benefit increases and extensions and through providing support to help unemployed workers continue their health insurance coverage). This element of the Recovery Act reflects the Administration's understanding that a safety net for workers is just as important as a safety net for financial institutions.

In all, discretionary fiscal stimulus under the Recovery Act amounts to about 2 percent of GDP in 2009 and 1¾ percent of GDP in 2010; to date, a little more than 20 percent of the Act's spending and tax relief provisions have already entered the economy.

Although most of the effects of the Recovery Act are felt in domestic demand, important benefits from the stimulus are felt outside the U.S. as well. In particular, as is well-known, there are very strong trade ties between the U.S. and other countries in the Americas. About 16 percent of U.S. imports come from Canada, another 10 percent from Mexico, and another 6 percent to a variety of Latin American countries. And from these countries' perspectives, trade with the U.S. accounts for an important share of their export demand: For example, trade statistics for 2008 show that the U.S. accounted for more than 70 percent of Canada's and Mexico's exports, about 40 percent of exports by Colombia and Costa Rica, more than 15 percent of Brazil's exports and nearly 10 percent of Argentina's exports.

Estimates by the U. S. Council of Economic Advisers (CEA) imply that real U.S. GDP is currently about 1¼ percent above where it would be without the Recovery Act. Using typical empirical relationships between imports and GDP, it therefore appears that the Act has increased imports by roughly $30 billion relative to what they otherwise would have been. Back-of-the-envelope calculations suggest that, out of a $30 billion increase in U.S. import spending, about $5 billion would show up as greater exports from Canada, about $3 billion as higher Mexican exports, and nearly $2 billion as higher exports from the rest of the hemisphere. The Recovery Act's stimulus has been felt throughout the Americas.

I have outlined U.S. policy actions because I am most familiar with them. However, the last several months have been unique because there has been an unprecedented degree of macroeconomic policy coordination in the wake of the financial crisis. Again, such a coordinated response is clearly dictated by the remarkably synchronized nature of the global economic downturn; moreover, trade linkages across countries imply that coordinated stimulus policies will be far more efficacious than attempts by individual countries to act in isolation. Stimulus programs of varying sizes were implemented in every G20 country and in nearly every country in the Americas; for example, discretionary fiscal stimulus in Canada, Mexico, and Argentina amounts to around 1½ to 2 percent of GDP in 2009, and many countries have another significant dose of stimulus on the way in 2010. Altogether, the International Labor Organization estimates that G20 stimulus measures will have created or saved between 7 million and 11 million jobs by the end of 2009, a total that would be even greater were estimates available for all of the countries that have taken significant fiscal action.

This coordinated fiscal response to the crisis is a key reason that many economies are beginning to show signs of recovery. Brazil, for example, grew at a nearly 8 percent annual rate in Q2. And, like the U.S. case, fiscal stimulus throughout the Americas is being felt across borders. For example, exports to countries in the Americas account for about 40 percent of all U.S. exports. Exports account for about 11 percent of U.S. GDP, and have risen for the past three months, after falling more than 25 percent from July 2008 through March of this year. The support to U.S. exports has helped to keep U.S. GDP from falling further, and has prevented job losses in the U.S. from being even greater.

Looking past the recovery period, the Americas will face a serious economic challenge. Fostering sustainable growth in jobs and output over the longer term will likely require the U.S. to save and invest a greater share of its output, and to consume less, both to reduce the government deficits that have been incurred and to repair private balance sheets. During the transition, U.S. demand for imports will be a little less robust. To maintain growth throughout the region, other countries will have to rely less on exports to the U.S. and more on exports to other countries in the region or on domestic demand. As these adjustments are being made, coordination, cooperation, and communication among the countries represented here will become even more important. Some progress has already been made along these lines: A few days ago, the G20 Finance Ministers and Central Bank Governors met and pledged to adopt policies needed to lay the foundation for strong and balanced growth. They agreed that, going forward, we need to shift from a recovery boosted by public demand to a sustainable pattern of private demand that does not rely on unsustainable imbalances. The group pledged to adopt macroeconomic policies that, consistent with price stability, promote adequate and balanced global growth. Importantly, the group pledged to make decisive progress on structural reforms that foster private demand, promote higher-productivity jobs, and raise long-run living standards.

The G20 made an unprecedented step toward cooperation and policy coordination. Within the Americas, this conference and this group, with its focus on employment, will play a key role in facilitating the transition to a more stable and sustainable world economy and in ensuring that the threat of a global financial meltdown is eliminated. We look forward to working together as we move ahead. Thank you.