Remarks of Ambassador Bleich at the Business Council of Australia Meeting

(As prepared for delivery – October 26, 2010)

Thank you very much for that kind introduction. I'd like to thank the Business Council for hosting this event.

[John Adams joke]

I've been asked to discuss the U.S. economy and the role of the United States in the Asia Pacific. As you know, the U.S. has been a principal economic force in the region. [DETAILS]

Question that people raise is how the rapid growth of economies throughout the Asia-Pacific will affect this, and for those who aren't worried about being polite whether the emergence of many Asia-Pacific economies means that the relative power of the U.S. in the region has declined and that it will continue to decline.

The emergence of vibrant economies in formerly impoverished parts of the world is striking evidence that American diplomacy has worked and that our influence, far from diminishing, is alive and well. The resilience of China, and Brazil, and India, and a whole host of other developing countries in the face of the Global Financial Crisis is, in fact, the fruit of patient efforts by the United States and its allies since the end of the Second World War to create a stable and open international economic system specifically designed to foster prosperity for all.

U.S. Economy

When President Obama took office, virtually all economists were projecting either another Great Depression or at best a 2 3 year recession before the U.S. would show signs of life. Credit had virtually locked up. The economy was shrinking at a rate of 6% per quarter. 4 million jobs had been lost. The stock market was in free fall. Major banks had already collapsed. And the deficit was $1.3 trillion – that's before President Obama started. The outgoing Treasury Secretary, Hank Paulson, had taken to randomly vomiting at meetings. It was that bad. I remember being there in the early days of the Obama White House seeing the stock market hit 6500 and listening to serious pundits urge us to nationalize the banks, and it did give you a little bit of vertigo. So those who make a cottage industry of predicting the fall of the United States had ample fodder for breathless books and lectures.

Fortunately, to paraphrase Mark Twain, “rumors of our death were greatly exaggerated.” With a combination of the federal stimulus package, the stress tests and recapitalization of the banks, the restructuring of the American car industry, the reform of our financial sector, and the many steps taken by the Federal Reserve to ease credit, we’ve seen a remarkable turn-around.

We’ve pulled out of the recession and have now had four positive quarters of GDP growth in a row. The Dow came back and has stabilized at 11,000.

Because of the economic plan we put in place, roughly 3 million Americans that otherwise would be unemployed are working today, and the private sector has created net jobs for the last nine months in a row.

And even on the deficit – the latest bogeyman of the pessimists – the news is better than you might expect. The Congressional Budget Office (CBO) is now projecting that federal budget deficits will decline markedly, falling from 7% of GDP in 2011 to reach a low of 2.5% of GDP in 2014. This is partly because the banks and other bailed-out sectors are repaying their loans with interest. It is also due in part to the fact that certain tax cuts for the wealthiest 2% are scheduled to expire, which will stop the bleeding of $700 billion from the U.S. Treasury. Finally, the deficit is coming down because all of this has a multiplier effect – accelerating the recovery by renewing confidence in America’s economy

We addressed regulatory and market failures with comprehensive financial reform legislation that ensures that the events that caused the GFC won’t occur again: banks – not the taxpayers – will pay for future bank failures and consumers will be protected. The reforms will require financial firms to change the way they do business, change the way they treat customers, change the way they manage risk, and change the way they reward their executives.

I don’t want to sound like everything is now fine. As President Obama said recently, “The middle class is still treading water, and those aspiring to reach the middle class are doing everything they can to keep from drowning.” Admittedly, progress has been slower than we would like and certainly slower than the millions of people who are still unemployed, or underwater on their mortgages, need in order to get back afloat.

But my point is this. If I had attended this event at this same time last year and told you that one year from now the United States would be fully out of recession, have posted four positive quarters in a row, the Dow would at 11,000, and the deficit would be falling, you'd have thought I was crazy. You'd be wondering who I was, and where I had locked up the real Ambassador.

I don't claim that all of this was solely the result of the Administration's efforts. Great cooperation among the G-20 countries to coordinate our fiscal and monetary policies and avoid trade protectionism – beggar-thy-neighbor policies that would have been catastrophic at the height of the GFC – was a major factor as well. But a critical factor was also this: the real underpinnings of the U.S. economy remained strong; it was the markets and the regulators that had gone weak. The fact that the international markets were, and still are, willing to lend to the United States is, itself, a clear demonstration that financial institutions continue to recognize the underlying strength of the U.S. economy. Indeed, once the banks found religion again, they were able to return to profitability in record time and pay back their government loans with interest.

And we continued to innovate – in the depth of the GFC, we were still producing a record number of new patents in critical technologies – particularly clean-tech, biotech, and high-speed communications.

The United States in the World

Why do I lump the G20, the domestic U.S. economy and innovation together in the same thought? The G20 and the evolving international structures we see today are just the latest in a long series of efforts by a United States that sees it in its own interest to build a resilient and adaptable world economic system capable of providing prosperity for all – a tradition that began with the Bretton Woods institutions and continues to the present with the G-20 and WTO, just to name two of the most prominent features of today's international economic architecture.

The Charter of the United Nations, signed on 26 June 1945, when the United States was arguably at the peak of its relative power in the world at the end of the Second World War as the last industrial country left standing, called on the nations of the world "to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small…and to employ international machinery for the promotion of the economic and social advancement of all peoples." So from these early days, the United States was interested in using its power and influence to create a world system that would unlock the tremendous power of individuals by providing a stable and open structure that allows them to turn their energies and ideas to the pursuit of shared prosperity for all humankind. This is why the United States continues to encourage others to respect human rights, open markets, and adopt progressive labor laws.

It is this belief in the freedom of individuals to innovate that is at the heart of the American, and I would now argue, the world economy, that has allowed us to avoid the worst effects of the Global Financial Crisis. In the long run, the single most important characteristic of successful economies and influential nations is adaptability, and this is without a doubt America's strong suit. Our future success depends not on others doing worse, but on our ability to respond flexibly and creatively to the new situations and challenges that are sure to come our way.

That's why people who in the past have confidently predicted the "decline" of U.S. power as other economies grew have been proven wrong. In the 1960s, for example, most members of the Kennedy Administration were convinced that the Soviet Union would overtake the U.S. economy because of its extensive natural resources, centralized decision-making, and growing population. Likewise, in the 1980s, headlines proclaimed that Japan and Germany had won the Cold War because they had stronger economies coming out of that era. Again, the U.S. was able to keep both its economic and political influence intact.

The point here is that economic gains by some parts of the world do not necessitate a commensurate decline in U.S. influence. In fact, it can be the opposite. By reducing poverty and instability in the developing world and building stronger and more balanced economies, these countries become more attractive for U.S. goods and services, demonstrating yet again the old adage that neither economic growth nor international trade are zero-sum games. This virtuous cycle will progressively free up U.S. government resources that formerly went to defense spending or development aid while simultaneously creating jobs and prosperity for more Americans via increased exports.

The U.S. and China

There has been a great deal of talk about China's becoming the world's second largest economy. While some might compare the continued rapid growth of China to a stumbling U.S. economy and say the United States is in relative decline, I would argue that China's success has been enabled precisely because of America's influence in shaping the world economic system. The growth of China's economy does not pose a threat – it actually reinforces the strength of U.S. international leadership. China's economic growth is impressive and will likely continue to be strong for some time. China made some smart economic reforms which took advantage of open markets around the world, including America's, which has become the principal destination of Chinese exports. Its accession to the World Trade Organization in 2001, which came about due in no small measure to the efforts of the Clinton and George W. Bush administrations, helped lock in China's reforms and its access to markets of other WTO members, spurring this most recent decade of double-digit growth. But even with this growth, China still only ranks 103rd in per capita GDP, just between Angola and El Salvador according to World Bank statistics, and it still takes billions of dollars in aid from the multilateral development banks. The U.S. would actually like to see China continue to grow because that stabilizes the global economy, increases potential markets for U.S. goods and services, and allows China to contribute more to development of other poor countries.

Historically, the nations with the largest economies in the world have not always exercised the most influence. In the 1800s, China had the world's largest economy, but France and England projected far more power around the world, including in Asia, during that period. Later, in the 1880s, the U.S. emerged as the world's leading economy, but Great Britain still remained the dominant force in world affairs for many decades. The same is true of smaller economies. Australia's influence demonstrates the point well. Australia's relatively small population means that its GDP will never be the world's largest. However, because of other factors – its geography, stable and democratic government, strategic alliances, and sound economic policies, it has become one of the most influential nations in the world. (It's also why policy wonks always say things like "Australia punches above its weight.")

The reason GDP and influence are not totally synonymous is because the kind of influence that counts in international relations cannot be measured in solely economic terms. There has always been something more than dollars behind America's influence. First and foremost, the United States has extended influence through its values. Dedication to a free and open economy, freedom of expression, education, respect for human rights, and a commitment to help those less fortunate around the world has generated a deep pool of global goodwill. Staying true to those values creates an influence that is not measured in dollars and cents. Likewise, while the U.S. has made mistakes, it has also exercised a level of benevolent restraint rare in the annals of world history's "superpowers" which has earned it a rare measure of trust, which again can't be valued in monetary terms. These include the fact that it fought two wars in Europe (not to mention the War in the Pacific and the Korean War) and sacrificed thousands of lives in those places without ever demanding land in return; the fact that it has been the most generous nation in the world in providing relief to victims of natural disasters and violence; and the fact that we have shared our scientific discoveries with the world. This generosity and restraint have again yielded an influence distinct far beyond our already high level of economic power.

What next?

This isn't to say that America can take its relative position for granted; it's only to recognize that we can't be counted out so easily. If anything, we Americans should be concerned about our current situation because concern itself is helpful. Periods of doubt and insecurity have actually been very good for priming the U.S. economy and our international engagement. As we seek to maintain a global economy based on balanced and sustained growth, it is not enough for us to merely maintain the status quo.

We need to redouble our investment in the international economic system. We must continue to break down long-standing barriers to trade and investment and increase economic integration. Global imbalances continue and need to be addressed or we risk further market dislocations. As China's top leaders have acknowledged, they need to move away from their over-reliance on exports and investment to encourage more domestic demand.

This process will be neither easy nor fast, requiring as it will some serious policy adjustments, but it is vital for the sustainability of economic growth in China, in the United States, and the rest of the world, which is why our top economic policymakers remain in frequent and close contact with their Chinese counterparts as we both work toward rebalancing our economies.

As President Obama said in Japan last year, "The United States has been a Pacific nation for generations … Asia and the United States are not separated by [the Pacific]; we are bound by it."

The President remains committed to broadening and deepening our ties in the region, to passing the already negotiated U.S.-South Korea Free Trade Agreement and other FTAs, and to vigorously pursuing the Trans-Pacific Partnership Agreement, a high-standard, 21st century regional trade agreement that will bring greater prosperity to the nine participating economies from both sides of the Pacific through increased trade and investment and potentially serve as the blueprint for an expanded free trade area of the Asia-Pacific.

And this takes me back to the question that I think we ought to be asking, which is whether the rise of Asia's economic powers is in the best interest of the United States. I think the answer is a resounding "yes," and the historical record shows clearly that decades of U.S. leaders, both Democrat and Republican, have purposefully pursued policies designed specifically to bring this about. Many previous "superpowers" attempted to rig the system in such a way as to prolong as long as possible their predominance. In the wake of World War Two, however, the United States, in perhaps the most amazing burst of self-interested altruism in world history, committed to building an international system that would promote the security, stability, and prosperity of all nations by encouraging universal participation and imposing binding restraints on all. We believed, and continue to believe, that the best guarantor of our own safety and prosperity is the safety and prosperity of the entire international community. And so we, together with our friends and allies, established the United Nations, the International Monetary Fund, the World Bank, the General Agreement on Trade and Tariffs (now the World Trade Organization), and all the other regional and multilateral mechanisms and groupings that make up the network of inclusive, rules-based institutions that constitute today's global system. Viewed from this perspective, the economic emergence (or re-emergence) of countries like China, India, and Indonesia here in Asia, or Brazil, Turkey, and Russia in other regions, is a vindication of U.S. influence, an influence that we have unselfishly (but self-interestedly) wielded in pursuit of the principle that a rising tide lifts all boats.

So let me end with this. America and her allies should not be fearful of the emergence of other regional economies, but should continue to encourage and welcome it. Competition is good for us, and having richer, more secure neighbors is good for everyone. The U.S. economy has been recovering steadily for over a year now, and despite all of the predictable claims that "this time" it will somehow be different, every indicator suggests that the economy will fully recover again. While other economies may (or may not) continue to grow at a faster rate, the U.S. should not worry that stronger competition will erode its influence. If history is any guide, it will instead prompt us to step up our game yet again by spurring innovation, increasing productivity, creating more opportunities, and strengthening our commitment to those values that money just can't buy.