Adam Posen: Good morning, everyone. Welcoming you back promptly at 8:45 a.m. to the Peterson Institute for National Economics where it’s our privilege today to have the major address by Nathan Sheets, the US Department of Treasury’s Under Secretary for International Affairs. Nathan is obviously speaking at a critical juncture in world economic affairs. It’s hard to say in the last few years when there hasn’t been a critical juncture. However, Nathan has been at most of those junctures.

We’ve all, here at the Institute, valued Nathan as a colleague for many years. A distinguished career working at the Division of International Finance and the Board of Governors at the Federal Reserve, ending as the latest/the current occupant of the chair of Director of the Board’s Division of International Finance, where we have had many distinguished colleagues through the years. Following that, he spent three years as Global Head of International Economics at Citigroup and in September, 2014, was confirmed by the United States Senate to service the US Department of Treasury’s Undersecretary for International Affairs.

Usually, I don’t like reading bullet point, but the description that, maybe thanks to Nathan, is now on the department website, I think is actually very good. The Treasury’s Office of International Affairs, which Nathan is now leading, protects and supports US economic prosperity by strengthening the external environment for US growth, preventing and mitigating global financial stability and managing key global challenges.

That pretty much precisely is what Nathan is going to be talking about today, fresh off the G20 meetings and the bilateral with the Indian Government, how we are looking at the challenge of global growth, how the US is seeing its foreign partners and allies in this process. Nathan, thank you so much for joining us today at the Peterson Institute.

Nathan Sheets: Well, thank you very much and it’s indeed a pleasure to be with you this morning. Since joining the Treasury, I have traveled around the world attending a steady stream of G20 meetings. The discussions at these meetings span a rich set of issues, but the particular focus is on the current...
and prospective performance of the global economy. While the US economy continues to gain steam with real GDP growing above trend, job creation picking up sharply, and unemployment declining, we’ve not yet seen a strong and consistent growth across the rest of the world.

There is broad agreement in these G20 discussions as the leaders have underscored that our ultimate objective is strong, sustainable, and balanced global growth. Notably, however, there is also agreement that the global economy is falling short of this goal in two important ways.

First, trend growth for many countries individually and for the global economy as a whole, has slowed in the years since the financial crisis. And potential output, that is, the productive capacity of the economy to supply goods and services, has remained below our reasonable aspirations.

This observation raises important concerns about the capacity of firms to innovatively combine labor, capital, and other resources to produce output. There is clear recognition in these G20 discussions that strengthening the supply side of our economies is essential for increasing employment, boosting productivity, and raising standards of living for future generations.

But there is also agreement that we are falling short in a second critical way. Specifically, the global economy continues to be plagued by substantial cyclical slack. Aggregate demand in spending are markedly below our now reduced estimates of the potential capacity to produce. The economic consequences of the shortfall have been significant. First, cyclical weakness is matched in inability to provide suitable jobs for many of our citizens, especially our young workers.

Second, it is translated into strong disinflationary pressures and in some countries, the onset of outright deflation. Third, this sustained weakness has unleashed divisive political pressures, which at times have complicated the pursuit of sound economic policies. Thus, by my reckoning, the leading voices in the G20 generally agree on our ultimate objectives and the challenges that we face.

There is consensus that global economic performance is disappointing on both the supply side and the demand side, but we differ in our views as to the causes of this disappointing performance and what policies can most effectively address the present challenges. In the remainder of my remarks, I will address this debate. My core arguments are tailored particularly for the advanced economies, but I will also sketch out some implications for the emerging markets.
The key insight that I want to emphasize is that the supply side and the demand side of the economy are vitally interlinked. A viable program to move the global economy forward must include reinforcing and complementary steps, both to raise productive capacity and to reduce the unacceptably large cyclical slack that now prevails.

Let me begin with the supply side of the equation. As I indicated, the G20 consensus is that the disappointing performance in the global economy has in part reflected a shortfall on the supply side. This diagnosis provides a strong rationale for countries to adopt structural reforms to bolster productive capacity where needed.

Examples of such reforms include measures to make labor markets more flexible by allowing firms greater scope to hire, fire, and negotiate wages, making product markets more competitive by removing barriers to entry, and giving firms increased latitude to adjust their prices. And more generally, by taking appropriate steps to streamline regulation, privatize state-owned firms, and increase openness to international trade and investment.

Although mobilizing political support for such reforms can be difficult, they hold the prospect of spring innovation, improving the climate for investment in entrepreneurship, stimulating labor supply and making the economy more diversified, flexible, and resilient. The urgency of structural reforms and their prescribed mix vary significantly from country to country, but I see the case as especially persuasive for three sets of countries.

First, several of the European peripheral countries need to make further progress in restructuring their economies. Italy is an important example. The Italian unit labor costs have risen substantially, well relative to many other Euro area countries over the course of the past decade. Labor market reforms to raise the productivity of Italy’s workers are sorely needed to enhance competitiveness going forward. Another example is Greece, which has made progress in addressing its fiscal imbalances and bringing down its unit labor costs, but further structural reforms are needed to allow its economy to compete successfully in Europe and internationally.

A second group of countries, for which structural reforms are essential, is the emerging market commodity exporters, the slow in growth in China and Chinese demand for commodities and the more general softening of conditions in global commodity markets. Countries like South Africa and Brazil have compelling incentives to diversify the structure of their economies to reduce exposure to volatile commodity prices.
Third, a number of other emerging market economies, most prominently China, have remained far too reliant on export-led growth. This has perpetuated the risks associated with global imbalances and blunted our mutual efforts to achieve strong, sustainable and balanced growth. In addition with sluggish global demand and with global trade now growing at a much slower rate, export-led growth strategies are less viable for the countries and the cells and more prone to zero-sum competition for market share than in the past.

In countries that are overly reliant on export-led growth, reforms are needed to shift resources toward the non-tradable sectors and rebalance the economy towards stronger domestic demand. Achieving these policy objectives will require efforts to open the financial sector, allow increased exchange rate flexibility and strengthen safety nets.

Notably, the G20 work program reflects the importance of structural reforms. The so-called growth strategies initiative endorsed by the leaders in Brisbane seeks to raise the collective GDP of the G20 countries by at least 2% or $2 trillion relative to baseline by 2018. In pursuit of this objective, countries have put forward a range of reforms to support investment, particularly in infrastructure, job creation, and further steps to open trade and spur global integration.

The United States has been a pace setter in this effort. Historically, the US economy has been distinguished by structural flexibility in its labor and product markets, clear property rights, commitment to the rule of law, and openness to foreign trade and investment. In the year since the financial crisis, the United States has moved aggressively to implement financial sector reforms to make intermediation more reliable and efficient, as well as to ensure the integrity of our financial markets and reduce vulnerabilities to future crises.

Looking ahead, the administration’s structural reform agenda includes reforming the business tax system and strengthening the framework for immigration. We are also actively engaged in pursuing the administration’s trade agenda to a high standard agreement such as the Trans-Pacific Partnership, which will expand opportunities and drive further integration with key trading partners.

Together, these measures will support the competitiveness of American businesses and promote growth and stability, both globally and here at home. Well-designed structural reform measures are clearly needed to enhance the productive capacity of the global economy. But a related point also bears emphasis. While structural reforms are necessary to ensure that global economic performance is vibrant in the medium to long run, as a general matter, they do not address the urgent problems of underutilized
labor resources and disappointing growth that the global economy faces today. These challenges instead reflect softness in global demand.

Structural reforms come in many types and varieties, but my reading of the empirical literatures that they tend to have neutral or particularly, for labor market reforms, contractionary effects in the near term. It is sometimes argued that the announcement of structural reform programs will unleash a powerful dose of confidence that provides immediate stimulus to the economy.

While such scenarios cannot be ruled out, the early stages of intensive structural reform programs often bring stark economic adjustments. Less competitive firms tend to lose market share. Inefficient sectors may be squeezed by increased competition. Wages in sheltered industries are often pushed down and their workforce reduced. And privatization may bring downsizing, rationalization of state-owned firms. Such developments lay the groundwork for stronger performance over time. In the near term, however, the uncertainties and transition costs may be intense and sometimes, contractionary.

To be concrete, let’s consider the recent experience of Spain. See if I can make the clicker work here. Here we go. As displayed in this first chart, over the past few years, Spain has made remarkable progress in reforming its economy. Its unit labor costs have fallen sharply relative to those of other Euro area countries indicating that Spanish labor is now more competitive. Its exports have been on a rising trajectory and real GDP growth has moved solidly into positive territory.

Given these favorable outcomes, Spain is appropriately singled out as a successful Euro area reformer; but make no mistake; the past years have not been easy. The country’s unemployment rate surged from 8% in the first half of 2007 to a peak of over 26% in 2013. Even now, the unemployment rate remains very high at over 23%. As an alternative metric of these adjustment costs, Spain’s economy in early 2011 began 10 consecutive quarters of economic contraction and real GDP is still down 5% from its peak before the global financial crisis.

While the reforms undertaken by Spain and other Euro area peripherals have been necessary, it’s worth considering whether a more stimulative calibration of macroeconomic policies in the Euro area as a whole would have allowed this adjustment to be less difficult for Spanish workers and the country’s economy more broadly.

With this question in mind, I now highlight the necessity of demand side policies in supporting economic activity through times of transition or
stress, as well as the vital role of these policies in fostering strong, sustainable, and balanced growth over the longer term.

As I noted at the outset, there is broad agreement across the G20 that the global economy continues to be plagued by cyclical slack. Current levels of aggregate demand and spending have been insufficient to close the sometimes large prevailing gaps in output and employment relative to their potential levels that many economies have faced. In other words, the supply side of the global economy has fallen short of expectations, but the demand side has been weaker still.

On this point, the G20 leaders pointedly observed in their Brisbane communique, “The global economy is being held back by a shortfall in global demand.” Economic history teaches that during periods of cyclical weakness, the global economy is more vulnerable to destabilizing shocks and to ill-advise policy choices such as excessive dependence on external demand, protectionism, and reliance on the exchange rate as a tool for fueling growth.

Let me note on exchange rate issues in particular. We have made progress urging key partners to move toward market-determined exchange rates. Such actions coupled with these economies’ ongoing reform efforts for example, the rebalance towards sustainable domestic spending, represent meaningful steps in our pursuit of a more level global playing field.

But another question, which there are still division within G20 circles, is how macroeconomic policies should respond to the shortfall in global demand. As is well known, we at the US Treasury have argued for countries to forcefully employ strong stimulative policies to address this situation. Such stimulants can include monetary measures where inflation is well contained and fiscal measures where the government has put its house in order and has sufficient budget space.

As an analytical matter, our position in favor of meaningful demand side stimulus rest on five core observations. First, demand side policies have been powerful in the United States. In the years following the eruption of the financial crisis, the United States took forceful action to stimulate demand, fully employing both monetary and fiscal tools. The Federal Reserves/Policy Rates injected liquidity and bolstered through demand through unconventional balance sheet policies.

Fiscal policy provided critical stimulus during the crisis by temporarily boosting expenditures and extending unemployment benefits as well as through supportive tax cuts and efforts to stabilize the housing market. Such measures help prevent an even more severe downturn and fuel the
recovery that has outpaced those of many other advanced economies and which now appears to be gaining steam.

One concern expressed about these stimulative policies was that they would stoke an outbreak of inflationary pressures, but this has not been the case. These policies have limited deflationary risks, while both inflation and inflation expectations have remained quiescent. The important conclusion is that in an environment with substantial slack in resource utilization and with the track record of subdued inflation expectations, macroeconomic policy has meaningful scope to pursue counter cyclical measures.

Second, there are vital links between the demand side and the supply side. Policies to support near-term demand has sometimes been dismissed as sugar stimulus. According to this line of thinking, such stimulus provides only a temporary boost to the economy with the effects quickly dissipating. But this overlooks an important point. Resources that are not being utilized tend to depreciate and become less productive. This is true of machines and structures which rust and decay, but is also true of labor and expertise.

As our experience of recent years attests, people who are out of work today find it harder to secure employment tomorrow. Periods of high cyclical unemployment can thus leave long-lasting scars on labor market conditions. Macroeconomists have labeled these important links between the performance of the economy today and the capacity to produce in the future as hysteresis.

Newly established firms, which are important drivers of job creation may be especially vulnerable to these hysteresis effects. Specifically, a prolonged deterioration in cyclical conditions would likely push many otherwise efficient and competitive firms into bankruptcy, reducing employment and the economy’s productive capacity even after the recovery has taken hold. Young firms and entrepreneurs often lacking the deep pockets and financial resources of their older counterparts are likely to be more adversely affected. Hence, demand side policies offer the added dividend of shielding these firms during periods of downturn.

Third, an argument sometimes lodged against stimulative fiscal policies is to increase the public debt burden to be shouldered by future generations. But my reading of the empirical evidence is markedly different. The appropriate gauge for assessing the burden of the debt is not the amount of debt that is owed, but rather the amount that is owed relative to the capacity to repay.
In other words, the denominator of the debt to GDP ratio is as important as the numerator. Given my previous arguments that periods of cyclical weakness can scar the economy’s productive capacity, a lagging policy response may adversely affect future debt sustainability. Specifically, prolonged periods of cyclical weakness impede the economy’s capacity to generate tax revenues and more generally, limit the resources available to service the debt.

The next chart provide some evidence bearing on this point. As is well known, Japan in recent decades has seen the ratio of its general government debt to GDP grow sharply relative to that of other countries. But the difference has not been a faster accumulation of debt. The numerator of the ratio, indeed both Japan and other G7 countries, have seen their debt levels expand significantly. Rather the remarkable difference has been in the growth of nominal GDP, the denominator of the ratio. In other G7 countries, nominal GDP has expanded steadily.

While in Japan, the sustained failure to defeat deflation contributed to a stagnation of nominal GDP. The key point is that the important objective of medium term fiscal sustainability depends not only on the evolution of the budget balance, but also hinges crucially on the achievement of growth and price stability objectives.

Fourth, the burdens of the prolonged downturn have fallen disproportionately on the young. As shown in the final chart, this has particularly been the case for the Euro area periphery. Spain and Greece face a major challenge. Their youth unemployment rates, that is, for workers younger than 25 years old, have remained over 50% through the past few years. In Italy and Portugal, the situation is only a little less severe. Conditions in the United Kingdom and the United States are better, but rates are still unacceptably high.

Only in Germany is this rate below 10%. These data highlight a striking irony. Those who oppose calibrated stimulus in the name of not leaving debt for future generations may inadvertently be intensifying headwinds facing the younger workers that they aim to protect. This outcome is particularly concerning given the rapidly aging populations in many countries.

As baby boomers reach retirement, today’s young workers are quickly becoming the heart and soul of the workforce. Such high unemployment rates raise serious questions as to whether these workers will have the skills they need to drive economic growth in the decades ahead.

Fifth, strong demand is the ultimate driver of confidence. Those who question the advisability of stimulative macroeconomic policies often
count their arguments in terms of the need to restore confidence in the business community. This is a worthy and important goal, but these arguments fail to recognize that nothing is likely to jumpstart business confidence and for that matter, consumer confidence, more powerfully than evidence of rising demand and stronger real GDP growth.

Indeed, a benchmark theory of investment, the so-called accelerator model, links business investment directly to the rate of economic growth. In this sense, businesses strike a Missouri-like show me stance. They boost their levels of investment once they actually see evidence of stronger demand for their products.

My bottom line today is that sound economic policies must seek to appropriately balance supply side and demand side considerations. Measures to stimulate demand during periods of weakness are necessary both to ensure favorable economic growth today and to safeguard the vibrancy of the economy and its capacity to produce tomorrow. This is especially the case during periods of high unemployment.

Structural reforms can have powerful effects on growth over the medium to long run, but they are not a substitute for appropriate measures to stimulate demand in the near term. Instead, structural reforms and macroeconomic stimulus have the capacity to play complementary roles.

For example, to the extent the labor market reforms exert contractionary effects in the near term, well-designed macro stimulus can buffer adverse effects on the economy. This in turn helps ensure that the reforms proceed in an environment that is as supportive as possible. Conversely, macro stimulus is likely to be most effective when the supply side of the economy is strong.

Finally, the arguments that I have made are not only important for individual countries as they seek to frame their economic policies. They are also the key to realizing the G20’s goal of lifting global growth. As policymakers take appropriate steps to support demand in their own economies, positive spillovers flow to the rest of the world. These spillovers serve both to limit the depth of cyclical downturns elsewhere and to create a global environment that is supportive of countries’ structural reform efforts.

For these reasons, an ongoing commitment to strong domestic demand-led measures is central to catalyzing a productive, resilient, and balanced global economy in the years to come. Thank you.

Adam Posen: Thank you, Nathan. In accord with Treasury’s regard for the quaint notion of markets that close, we have a hard stop at 9:29. So I am not going to
profess my admiration for your excellent speech, though it was excellent, I am going to pull out my timing warning, and I’m going to ask you a couple of questions, I hope concisely, and then turn it to our audience.

First, I mean, you closed on the note about positive spillovers. Analytically, is there some countries for whom when they do stimulus, even if it has an exchange rate effect, it’s more of a positive spillover on the world? Does this express what kinds of policies you want them to have? How do you think about determining when it’s positive spillover versus too-big-to-fail?

Nathan Sheets: Very apropos and very difficult question. A few incomplete thoughts in response. The way I think about it and I think the way that Secretary Lewis has framed this as well is that it’s imperative that countries use the tools at their disposal to support their economies, which means monetary policy, fiscal policy, and structural reforms appropriately calibrated. To the extent that we see economies becoming overly reliant on one of these tools, then that becomes a concern; that becomes a problem.

On the other hand, as the economies are pursuing the mechanisms they have to provide stimulus today and to support the strength of their economies going forward, that’s taking their economy and the global economy to a much better place. The way I think about your issue really has to do with are they using the tools at their disposal and to the extent that they are, that’s making a stronger global economy that’s in their interests, in US’ interests, and our collective interests.

Adam Posen: Great. Turning from that choice of tools to your role as a central US top financial diplomat, your predecessor and the team at Treasury had essentially negotiated two plus years ago a G7 agreement to limit in your face, if you’ll excuse the expression, currency manipulation, and it seems to have worked out with respect to Japan and some others. Is it too much to take, read into your remarks in the communique of the G20 that we’re getting to that point in the G20 as well as the G7? Are we moving in that direction? How do you feel this diplomatic initiative on currency interventions held up?

Nathan Sheets: My sense is that we’re making a significant progress. We’re getting traction. As you mentioned, in the G7, we have an agreement that countries will use domestic tools for domestic purposes and not use the tools at their disposal to target their exchange rate or their external sectors. Similarly, in the G20, we have an agreement that countries will move more quickly toward market-determined exchange rates and pursue policies that are consistent with market-determined exchange rates.
A third modality that, in addition to G7 and G20, in our bilateral engagement a whole range of manifestations of this, but China in our S&ED in July made a commitment that they would reduce their foreign exchange intervention as conditions permit it. And by our reading, the Chinese essentially are refrained from foreign exchange purchases since that period. So it feels to me like when I look at the data, when I look at the evidence, that we are making significant progress and as you point out, there’s a fair amount of momentum, there’s a wind at our back here.

We’re very committed to it, but by the same token, the job is not done. Every G20 meeting we go to, we raise this issue of currencies and market-determined exchange rates and using domestic tools for domestic purposes. We raise this consistently in our various bilateral engagement. This is an issue of great priority for us.

Adam Posen: Let me follow up on that. Obviously, the currency manipulation construct is now being bandied about as a potential precondition or component of either TPA or TPP. Speaking just for myself, not for the Institute, I think this is a terrible idea because your diplomacy is working better. This could blow up the TPP, which is worth far more from the kinds of growth reasons you’ve talked about and because just like the US Congress doesn’t like being subjected to legalese conjunctions, other sovereign nations don’t. But that’s just my view. What do you think of this issue? How does Treasury feel about this provision being snuck into—or not snuck in—nailed on to TPP?

Nathan Sheets: So Adam, I very much agree with your points that TPP and TPA are absolutely essential. They are first to order objectives for the administration. We at the Treasury are vitally engaged and vitally involved in that. On the exchange rate issue, in particular, we feel that we’re making progress and continuing along the lines of bilateral and multilateral engagement is the strategy that’s likely to be the most effective and the most powerful going forward.

Adam Posen: Great. I’m going to ask you one question which is a little bit less we’re in agreement or at least, maybe it will turn out we are, but I hope so. Unless I misheard you, I didn’t hear the word IMF in your entire speech. Now, some of us would like to think that if the US fulfilled its obligations in the IMF that would contribute to the kinds of good outcomes you’re talking about. Is your omission of the IMF in the speech because it’s just off the table right now while the US Congress hasn’t done its job or is it because you don’t think it matters? Where is the Treasury on this issue now?

Nathan Sheets: So I also didn’t mention my mother and I love her. I love her dearly.

Adam Posen: Beautiful response. Beautiful.
Nathan Sheets: But our view is that the IMF is a crucial player in the global economy and the manifestations of the centrality of the IMF are varied. One of them as you point out is doing this kind of multilateral surveillance of various countries, thinking about exchange rate policies, thinking about how it all adds up; what are the global adding up constraints that are manifest? The IMF was created to do that and I think it does it well.

So we are enthusiastically supportive of the IMF’s role in helping in this area, but in a number of other areas as well. Consistent with this, the administration and the Treasury are pushing vigorously for the 2010 quarter reforms to be approved by Congress, which I think will open the door for the IMF to continue to play this kind of a central role going forward.

Adam Posen: Great. What I’d like to do is now turn it to our audience. There are two ground rules. First, the press has been ring-fenced by Treasury request. The questions should only come from our distinguished guests who are not journalists.

Second, I’m going to usually try to collect two or three questions quickly, because as I said, we have a hard stop at now less than 10 minutes. Please be as admirably concise as Nathan and his mother, if you could. Who would like to go first? If you could step to the back mic there. Yes. And then before I go to Paolo, is there anybody else not PIIE who wants to ask a question? Yes, okay. Look, Cheska, if could you give those two people the mic.

Matt Goodman: Hi, I’m Matt Goodman from CSIS. Should we infer from your Japan story that we should be concerned about debt sustainability in Japan and B) are you also suggesting that Japan should put relatively more emphasis on arrows one and two and less on arrow three?

Adam Posen: Okay, the lady there. If you could identify yourself please.

Kate Fulton: Good morning, it’s Kate Fulton with Black Rock. I have an international tax question and that is related to the OECD’s base erosion and profit sharing project. We’re wondering whether the G20 is focused on some potential unintended consequences, particularly for funds, which we’re very interested in, infrastructure, private equity, real estate that could be, we think, unintentionally captured by the BEPS project. So would appreciate your comments on that.

Adam Posen: Thank you and now you.
Paolo Mauro: Paolo Mauro from the Peterson. I just wanted a sense from you of what you see as the tolerance on the part of international markets for fiscal stimulus in Europe. I’m going back to the case of Spain, which gave a very strong fiscal stimulus early on in the crisis and then its interest rates rose to the sky. How much scope is there really for more stimulus there?

Adam Posen: Okay. Nathan gets to respond. You’re next if Nathan makes it in the remaining time.

Jo Marie Griesgraber: All right, Nathan.

Nathan Sheets: On the situation in Japan, the key message is very similar to what I outlined a moment ago. Prime Minister Abe has articulated the three arrows, the monetary, fiscal, and structural. And my sense is that all three of those arrows are crucial for the Japanese economy to put itself back on a path of sustained growth. To date, my sense is that the monetary arrow has been launched much more vigorously than the fiscal arrow and the structural arrow. And bringing those three avenues to provide support in the greater balance is, I think, a key theme of the speech. Specifically on the debt sustainability of Japan, the debt is at levels that if they exceed that of other countries.

And again, one of the messages I was trying to articulate is that in thinking about debt sustainability in Japan and many other places, it’s important to think about not only the flow of the budget balance, which is a legitimate thing to think about, but also what’s going on in the economy more deeply and pursuit of price stability and growth objectives that these various concerns need to be balanced.

On the BEPS project, I don’t have a specific answer for you on funds. I think some of my colleagues at Treasury would be better placed to address that. But we are vigorously engaged in this G20 initiative on base erosion and profit shifting with an idea of creating a level global playing field for large international institutions and making sure that international earnings of these institutions and corporations are taxed once and only once.

In terms of the market’s appetite for fiscal stimulus in Europe, again the point I’m trying to make is where there is space, we should use it. And early in European situation there were reasons to question whether Spain actually had the space and I think that’s why the markets responded the way you described. Assuming there are other parts of the Euro area where there is space and it’s appropriate for those parts of the Euro area to take supportive stimulative action.

Adam Posen: Wow, he is exemplary. We got time for one more.
Jo Marie Griesgraber: Yes, thank you. Jo Marie Griesgraber, New Rules for Global Finance. In light of your position on the strong financial regulation, going forward, how do you reconcile that with too-big-to-fail not being addressed yet, according to the FSB? Also, is your strong financial regulation consistent with what’s being negotiated in the Trans-Pacific and Trans-Atlantic Trade Agreements? Thank you.

Adam Posen: Thank you.

Nathan Sheets: So in response to the second part of your question on our trade agreements and effective regulation, how’s this for pithy? Absolutely yes. I feel that those agreements are strongly consistent with our regulatory goals and if anything, would help facilitate those goals. More broadly, a major prong of our G20 work program is focused on building more resilient financial institutions that are performing financial markets.

In terms of risks associated with too-big-to-fail in particular, over the last year, the G20 and the FSB have made a significant progress on the total loss absorbing capacity standard or TLAC, which should go a long way in helping address some of these concerns and give regulators key points when in institutions maybe under stress, additional tools that might be used and tools that didn’t exist in 2008 and 2009 when we’re managing the financial crisis. So I feel like we’re making significant headway there.

Adam Posen: This has been wonderful. Undersecretary Sheets, you came to us with your distinguished pedigree and then limits to flying around the world.

As always, you were collegial, you were frank, you were substantive, you were pithy, and we’re very grateful to have had you again at the Peterson Institute where you and your colleagues are always welcome. But most of all, we wish you continued success in creating a stable world growth for the US. We have 30 seconds left for your applause to say thank you.