



# Rebuilding the Global Economy

*A series outlining policy priorities and solutions*

MEMORANDUM ON

## ECONOMIC POLICY PRIORITIES FOR THE NEXT US ADMINISTRATION

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**To: Under Secretary of the Treasury for International Affairs**  
**From: Maurice Obstfeld**  
**October 2020**

**Background:** The United States is best served by constructive engagement with foreign allies and competitors alike. A range of global threats has potentially severe economic ramifications, justifying attention to broader efforts at international cooperation beyond purely financial issues. Skillful messaging of the goals of these initiatives can build domestic support for globalized US engagement.

### **PRIORITY 1: Re-establish international trust in the United States as a global leader and role model**

The United States should **reaffirm its opposition to predatory trade and currency policy** within the G20<sup>1</sup>, while embracing positive steps needed to safeguard the global commons. Specifically, the United States should reengage constructively with key multilateral initiatives and organizations including the Paris Climate Agreement, the World Health Organization (WHO), and the World Trade Organization (WTO).

### **ACTIONABLE TO-DO LIST:**

- Join other G20 countries in the COVAX partnership formed to develop and distribute a vaccine for the COVID-19 disease, underlining the US commitment to the health and prosperity of developing countries, which ultimately contribute to that of the United States.
- Recommend that the president rescind Section 232 steel and aluminum tariffs.
  - » This action would both benefit the US and global economies, and serve to signal a sharp US shift toward a more internationally collaborative economic policy stance.
- Avoid exploiting the US dollar's global role as a sanctions instrument except in cases of relatively broad multilateral consensus.

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<sup>1</sup> The members of the G20 are Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, Japan, India, Indonesia, Italy, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States.

- Reverse the US position that exchange-rate stability is an independent policy goal, as expressed in the G20 March 2018 finance ministers' and central bank governors' communiqués and repeated in subsequent summit statements as a result of US pressure.
- Stop deemphasizing human rights in US international economic relations.

### **PRIORITY 2: Adopt a multilateral approach to China**

A shift is essential from the pattern of the last few years—unilateral action, coupled with coercion of third countries to support US tactics. Decoupling with China is not realistic, but at the same time, **addressing potential downsides in the economic relationship with China requires a multilateral response**, for example, by the G7<sup>2</sup> countries or a subset thereof.

#### **ACTIONABLE TO-DO LIST:**

- The United States and European Union should jointly confront China's intellectual property rights practices and industrial subsidies, push for greater market access, update the WTO framework to more effectively encompass Chinese policies that confer artificial trade advantage, strengthen WHO capabilities (including to call out probable violations of International Health Regulations), and push back on political repression in Hong Kong.

### **PRIORITY 3: Ensure fair tax collection from globally active businesses**

The current crisis will bequeath an **unprecedented federal debt level, putting tax revenues at a premium**. At the same time, voter support for globalization will fall further without assurance that multinational enterprises are paying their fair share: As the secretary-general of the Organization for Economic Cooperation and Development (OECD) has stated, “[P]ublic tolerance of tax avoidance by companies is expected to reach an historic low in the aftermath of the COVID-19 crisis.”

#### **ACTIONABLE TO-DO LIST:**

- The United States should clearly endorse and promote completion and adoption of the two pillars of the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS)—both Pillar One on international allocation of taxing rights and Pillar Two on minimal tax levels.

### **PRIORITY 4: Address corruption**

Corruption hampers growth, drains public revenues, and undermines faith in government. These problems are especially severe in poorer countries, which will be particularly vulnerable post-COVID-19, but unfortunately, the practices of richer countries with respect to **wealth secrecy and the foreign activities of companies** can undermine anti-corruption efforts. Efforts in this area can be complementary with those that help to counteract terrorist financing.

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<sup>2</sup> The G7 countries are: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

**ACTIONABLE TO-DO LIST:**

- Promote stronger implementation of the OECD Anti-Bribery Convention and lead by example through stronger adherence to the US Foreign Corrupt Practices Act.
- Fully implement transparency recommendations of the G7's Financial Action Task Force on money laundering and terrorist financing, and press US allies to do so as well.
  - » For the United States, measures would include identifying the beneficial owners of real estate and land, considering extension to financial securities, and extending and tightening due diligence requirements.
- Strengthen the US Treasury's Financial Crimes Enforcement Unit (FinCEN) with the goal of more aggressive surveillance of suspicious activity by reporting financial institutions.
  - » There is potential to leverage data analytics more effectively to support this work, as illustrated by the Decision Support System example recently developed within the International Monetary Fund (IMF).
- Strengthen engagement with the multilateral Egmont Group of Financial Intelligence Units.

**PRIORITY 5: Address volatile international credit conditions**

Emerging and developing countries are likely to face volatile international credit conditions in the near term as they cope with COVID-19 and slower growth globally. **Widespread debt servicing problems** could follow. Extensive debts to China pose a particular problem, though these should not be addressed by politicizing IMF/World Bank lending decisions.

**ACTIONABLE TO-DO LIST:**

- In the short term, support the creation of an IMF Pandemic Support Facility, as suggested by Adnan Mazerai and Matthew Fisher (PIIE Policy Brief, July 2020).
- Within the context of the IMF 16th General Review of Quotas, support expanded IMF quota resources and adjustment of emerging and developing economy quota shares in line with those countries' growing relative importance in the world economy.
- Work with the G20 and IMF to streamline restructuring or reprofiling procedures for poorer countries' private-sector sovereign debts, in cases where insolvency looks probable.
  - » This initiative would facilitate prompter and easier restructuring when necessary, while minimizing potential free riding by creditor groups.
  - » Benefits will flow to the United States through higher growth in emerging markets and developing economies (which contribute about 40 percent of global output at market exchange rates), enhanced financial stability here and abroad, and reduced risks of failed states and massive outward migrations.
  - » Consider among potential reform areas those identified in the IMF's October 2020 stocktaking paper "The International Architecture for Resolving Sovereign Debt Involving Private-Sector Creditors."

**PRIORITY 6: Coordinate globally on cyber risks**

Cyber risks pose a Damoclean threat to global financial stability and economic activity. The United States should lead in **demanding that international financial regulators put these risks top of agenda and coordinate closely on practices and threat assessments.**

**ACTIONABLE TO-DO LIST:**

- The Financial Stability Board’s (FSB) consultation report “[Effective Practices for Cyber Incident Response and Recovery](#),” presented to the G20 last April, offers a toolkit that could underlie international cooperation on a problem requiring globally coordinated preparedness, given the international financial linkages.
- Make clear US determination to retaliate strongly against state-sponsored cyber-mischief—whether by China, Russia, North Korea, Iran, or others.

**An Underappreciated Issue**

International payments remain slow, costly, and opaque, creating an opportunity for private actors such as Facebook to colonize the space in pursuit of their broader agendas (or for China to do the same with its digital currency, the e-RMB). The United States should help ensure that central banks fill that gap—though this requires close cooperation (e.g., a TARGET-like<sup>3</sup> set of lending arrangements among central banks). Under several different models, central bank digital currencies could form the basis for a real-time international payments system, including for remittances, with traceable payments that would contribute to enforcing anti-money laundering and combating the financing of terrorism (AML/CFT) regulations. The move away from cash during the current pandemic provides an impetus for these developments. The February 2020 meeting of G20 finance ministers and central bank governors recognized the inadequacy of the international payment infrastructure and tasked the FSB with developing a roadmap for improving cross-border payments. The FSB’s October 2020 [response](#) notes the potential for a system based on central bank digital currencies.

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<sup>3</sup> Trans-European Automated Real-Time Gross Settlement Express Transfer.