Celebrating Women Leaders
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Lael Brainard
Under Secretary of the Treasury for International Affairs

International Financial Diplomacy

Chrystia Freeland: Hello, everyone. I'm Chrystia Freeland, editor of Thomson Reuters Digital and your MC for today's Women Shaping the Global Economy luncheon with Under Secretary of the Treasury for International Affairs Lael Brainard. I'm delighted to welcome all of you to today's program. In her current position, Under Secretary Brainard advances the Administration's agenda of strengthening US leadership in the global economy to foster growth, create economic opportunities for Americans, and address transnational economic challenges, including development, climate change, food security, and financial inclusion. She travels constantly, and that is why we are lucky to have her here with us today. She just returned from the G-20 meeting in Mexico, and has also recently visited Greece, Germany, Spain, and France to meet with senior officials regarding the euro crisis. She was also in China in early May during Secretary Clinton's visit. Now, I'd like to introduce you to Maxine Isaacs, chair of the Women's Foreign Policy Group.

Maxine Isaacs: Thank you, Chrystia. It's a pleasure to have you here with us today. Good afternoon and welcome. I am Maxine Isaacs, chair of the Women's Foreign Policy Group, which promotes women's leadership and voices on pressing international issues of the day. I'm so pleased to welcome you all to today's Women Shaping the Global Economy Luncheon on International Financial Diplomacy with Lael Brainard, Under Secretary of the Treasury for International Affairs, and this event comes just after the G-20 meeting in Mexico and in the midst of the euro-zone crisis. We are particularly honored to host and celebrate such an outstanding woman leader who has been at the forefront of US global economic policy. We thank you all for coming out to represent this key administration official. I am so pleased that all of you could join us today and show your support for the Women's Foreign Policy Group as we celebrate our 17th year of promoting women's leadership and voices in international affairs. It is truly exciting to be here with such an accomplished group of women leaders who really show the breadth of the WFPG family along with their male colleagues. I want to begin by recognizing WFPG board members here with us—Debbie Dingell, Isabel Jasinowski, Gail Leftwich Kitch, Theresa Loar, Diana Negroponte, Mary Catherine Toker, and our president, Patricia Ellis—please stand. [*Applause*.] I especially want to thank WFPG Associate Director Kimberly Kahnhauser, who coordinated the event, and all of our WFPG interns and volunteers who made this event possible. These are our future leaders! Please stand. [*Applause*.] I also want to thank our sponsors Chevron and CH2M HILL for their generous support of this event and ask them to stand. Thank you. [*Applause*.] I would also like to recognize the numerous ambassadors here with us today and on the event's Honorary Committee. As we are the Women's Foreign Policy Group, I would like to ask the women ambassadors to stand first—and now the other ambassadors and diplomats to stand. [*Applause*.] We also have senior State Department and international organization officials and dignitaries with us and thank you all for joining us. This year has started out very well. We started with an event hosted by the Ambassador of Finland, we've had events on pressing issues such as Egypt, Burma, Iran and Syria. We held our annual mentoring fairs in Washington and New York, and we recently held our annual Celebration of Women Diplomats, generously and graciously hosted by Ambassador Claudia Fritsche—thank you, Ambassador—at her residence. We were honored to host events with UN Women

Executive Director Michelle Bachelet, Dina Powell of the Goldman Sachs Foundation, Congresswoman Jane Harman of the Woodrow Wilson Center, and an author event with board member Diana Negroponte. Our next event will be on July 10th. It'll be with Lisa Anderson, president of The American University in Cairo, talking about the situation in Egypt. And we hope you'll join us for all these events this summer. We—the Women's Foreign Policy Group—need your participation and support to continue these great programs, and I hope that if you are not yet a member of the Women's Foreign Policy Group you will join us, because I think you'll be very excited—today's event is very special, and we like to think that all of our events are very special. So I hope that you all think about joining. I'd also like you to prepare questions for our guest today. There are index cards on the table and I'm always asked to remind you to write legibly and put your note in the form of a question, include your name and affiliation and these will be—Chrystia will handle these somehow—and sort through them and incorporate them into her interview with Lael Brainard. So I invite you to enjoy your lunch—as you can see, it's arrived—and we will be back shortly to begin the program. Thank you very much. [*Applause*.]

Freeland: Okay, please stop talking now. [*Laughter*.] We're already running a little bit late because Lael has been saving the world, which she'll tell us about shortly. So now after a truly delicious meal—thank you very much, Patricia and Maxine, usually they're not so good. [*Laughter*.] We get to the real star of the show. I'm just going to quickly tell you guys how we're going to run things before I introduce our speaker and we hear from her. So I'm going to introduce her briefly. She's going to make some remarks from the podium for about 15 minutes. Then I'm going to interview her, including questions that you have very legibly and brilliantly written down on the cards. So get those questions in now. And Maxine has also told me that one of the reasons that these lunches are so popular is that they always end on time. So that's my promise to you—we will end at 2:00. Okay, now let me quickly introduce our speaker, Lael Brainard. We know that she's known as the Vulcan. [*Laughter*.] She is also known as a machine. A German official has been quoted as saying, "She smiles and has a very soft tone, but is tough as nails on the substance—you cannot underestimate her." Sounds actually like the worst possible person to interview. I prefer to interview substanceless blowhards who are more likely to make mistakes. [*Laughter*.] Anyway, she is currently the Under Secretary for International Affairs at the Treasury. It's not her first time in government. She was deputy national economic adviser and deputy assistant to the president in the Clinton Administration. She was one of the youngest sherpas in that round. Gene Sperling says that they didn't have her on the short list for that job, but she was just so good they felt they had to give it to her. Most recently she was at Brookings, where she was vice president and founding director of the Global Economy and Development Program. She has been—and that's just part of her CV, okay? So she's also worked at McKinsey, separately on microfinance in West Africa, and she was an associate professor of applied economics in her spare time at MIT, which you may have heard of. So now you can understand why people call her the Vulcan. And I wanted to add one line to her introduction. I don't know who's read Anne-Marie Slaughter's cover story in *The Atlantic*. I did. I liked it. And one point that Anne-Marie made, which I thought was great, is that in the same way that, you know, we would say someone is a marathon runner or a triathlete, and you would think, wow, they're extremely amazing because they do all these great professional things and also run marathons on the side, we should, when we are mothers, let people know that. So I have three kids, and Lael is, in addition to all of these things that she does, the mother of three daughters. Wow. Okay, come on up. [*Applause*.]

Lael Brainard: That was a great introduction—thank you very much. And I wanted to thank also Maxine and Patricia for inviting me here today. It is a great honor to be here with such an outstanding group of women and men. There are many aspects of my experience that I did not fully anticipate when I took office in the early days of 2009. I expected the US financial crisis to be the one big financial crisis that would confront the President during his first term. I did not anticipate it would take 13 months to schedule a confirmation vote. And I was surprised to discover that my position would be regularly described as that of "financial diplomat." Of course the word "diplomat" evokes images of Henry

Kissinger's secret mission to China with the diversionary theater of the stop off in Pakistan in 1971. In classic diplomacy, foreign ministry officials engage in negotiations to shape other countries' foreign policies through international treaties and agreements and thereby shape the international order to their advantage. Diplomacy, in short, is the stuff of legend and lore. Not so much finance ministries. But three and a half years into my tenure, I have come to think that the term financial diplomacy, while obscure, is apt.

Financial diplomacy is predominantly about shaping the domestic economic policies of other countries when they matter most to us and to the world. We work on financial diplomacy because some economic decisions made in one country can have an outsized impact on jobs and growth here in the United States and around the world. And as transmission channels proliferate, policies designed for domestic circumstances can matter as much or more to other countries as any international treaty. In contrast to the passionate interest provoked by foreign policy, financial policy is as prosaic as it is local—by determining whether currencies and stock markets plunge or stabilize, it can make the difference in whether families can afford to send their children to college, buy a home, or retire comfortably. Convincing leaders of other countries to change their domestic economic policies can be challenging and intensely political, yet it is also essential when it has an economic impact on our shores. International financial diplomacy has at times been subtle and intrusive, delicate and heavy-handed, and it puts us to the greatest test, paradoxically, when funding is not the answer. The intensity of financial diplomacy is proportional to the degree that those policy choices spill over across borders. The greatest hits and the best known duds of financial diplomacy occur at moments when leaders come together in moments of crisis and take collective actions, as they did in 2009, and famously failed to do in 1930. More often than not, crisis is the crucible that forges the innovations with the most lasting impact. Not surprisingly, financial diplomacy has become more intense as financial markets and economies have become more interconnected and higher frequency. It is remarkable to read the accounts of Norman Montagu setting off on a lengthy ocean voyage to consult with his international colleagues only to arrive home and discover sterling had already gone off gold. In May 2010, faced with rising levels of financial stress, euro area and G-7 officials had only a brief 50 hour interlude between 4:00 p.m. on Friday when New York closed and 6:30 p.m. our time on Sunday when New Zealand opened to craft the introduction of the European Financial Stability Facility and the Securities Markets Program to soothe markets.

The G-20 Summit in 2009 agreed to massive changes to international financial resources and institutions again within a matter of hours. By contrast, as you'll remember, John Maynard Keynes and then Secretary of the Treasury Henry Morgenthau and Harry Dexter White were holed up with their international counterparts for a full month in the warm months of the summer of 1944 negotiating the creation of the Bretton Woods institutions. You can only imagine the negotiators awaiting instruction via telegraph and sitting down with their counterparts over a succession of leisurely meals. Today you can practically sense the electrons zinging around the negotiating room and across the globe as financial negotiators text home and each other to probe for bottom lines and red lines, working against deadlines imposed by the news cycle and financial markets. And while classic diplomacy moves through the synapses of foreign ministries, financial diplomacy navigates through finance ministries and central banks, directly connecting the decision makers that determine tax and fiscal policies, financial regulations, and monetary policies and the officials most closely linked to the markets through open market operations, reserve management, and debt issuance. Through frequent interactions and sharing similar responsibility, financial diplomats develop a common set of tools, analytics, and language. Cultivating this common lexicon is especially critical when financial diplomats are called on to tackle today's complex challenges under the glare of a global 24/7 business news cycle.

The United States plays an outsized role in this system. That is true for some obvious reasons. We have the largest economy, the deepest and most liquid financial markets, and the world's reserve currency. But it is also true that the United States has the capacity to exert influence that goes beyond its size and is unrelated to assistance. As one scholar has noted, the United States is the, quote, "usual source of initiative." When we lead, our influence derives from our initiative, our intensity, and our ideas. Looking back on the early days of 2009, with the US at the center of the world financial crisis, President Obama, Secretary Geithner and Chairman Bernanke, working with the UK and other partners, took initiative. With collapsing global demand, trade flows seizing up, and confidence badly shaken, an acute sense of crisis helped propel changes that would have been unimaginable in calmer times. A whopping $1 trillion was mobilized in and through the Bretton Woods institutions. Recognizing that those institutions had not evolved to reflect the profound shift in the locus of global economic gravity, in short order, we supported elevating the G-20 to become the world's premier economic forum, standing up the Financial Stability Board, and shifting decision-making power within those same Bretton Woods institutions to reflect the greater say of emerging markets. Perhaps least noted but no less notable, we used the G-20 and the FSB to agree to a sweeping set of new standards that would apply uniformly across advanced economies and emerging markets, within their financial markets—extending the perimeter of regulation, ensuring the capacity to resolve even the largest and most complex institutions, compelling banks to hold thicker capital buffers against their risks, and bringing the vast world of over-the-counter derivatives out of the shadows. Due to these strong actions at home and around the world, our banking system is considerably more resilient today, household and business balance sheets are healthier, and our economy has gained strength. But too many Americans remain out of work and our economy has been buffeted by recurring bouts of financial stress from Europe, as has the global economy.

Navigating the turbulence faced by the euro area has presented a particularly compelling and complex challenge to financial diplomacy. Europe's economy matters greatly to us and to the world. When growth slows in Europe, it affects jobs here at home. European banks are a major source of financing for many emerging economies, so when financial stress rises in Europe, it damages confidence globally. In addition, of course, for strategic reasons, the United States has a long history of supporting European unification. So it should be no surprise that the President and his economic team have weighed in early, frequently, and with some intensity to offer ideas and support to our European friends, who have in turn substantially evolved their policy response. At the recent G-20 meetings in Los Cabos, the serious challenges facing Europe were at the center of discussions. Our European colleagues grasp the seriousness of the situation and are moving with a heightened sense of urgency. They have committed to take all necessary measures to safeguard the integrity and stability of the euro area, to improve the functioning of the financial markets, and to break the feedback loop between banks and sovereigns. In the days and weeks ahead it will be critical to see actions to address near-term stresses while laying a medium-term path to greater financial and fiscal union, which are now broadly recognized to be necessary complements to monetary union. The euro area is weighing proposals to build a more centralized financial architecture. More centralized authority for supervision and resolution will be necessary to enable greater risk sharing on recapitalization and risk insurance. In the near term, Spain is moving ahead with euro area partners to finalize the terms of the support to the financial restructuring authority in order to strengthen its banking system. Euro area authorities are also continuing to make their financial backstops credible and effective in the face of market pressures. It is important that countries, such as Spain and Italy, have sustainable borrowing costs as they undertake the ambitious fiscal and structural reforms necessary to improve their economies sustainability and competitiveness over several years. There is a renewed focus on supporting demand, and growing recognition that structural reforms to strengthen competitiveness in deficit countries must be paired with policies to promote demand in surplus countries. There may be greater willingness to stretch out fiscal adjustment over a more appropriate time frame, recognizing the dangers posed to both growth and fiscal performance of contracting too sharply into a downturn. And the new government in Greece and the troika together have stated their intention to work out a path to reform and sustainability within the euro area.

The decisions that lie ahead for leaders of euro area member states will have a profound impact not only on their own economies but also on their political future. These are decisions that are fundamentally theirs to make. But these decisions also matter profoundly to us and to the world. That is why we will remain intensely engaged—it is simply too important not to do so. Finally, the reflection on financial diplomacy would not be complete without a brief discussion on China. In recognition that its rise has presented a unique set of opportunities and challenges to the international financial system, we have engaged in intensive and unprecedented financial diplomacy with China. Through intensive engagement by the President, the Vice President and the Secretary in the United States–China Strategic and Economic Dialogue, we have sought to shape the policy choices facing Chinese financial authorities to increase their consistency with international standards and norms and to create a more level playing field. With demand expected to be weak in advanced economies for some time, it had become increasingly clear that China's growth model was no longer sustainable, with its lopsided reliance on massive investments in resource-intensive export industries, weak intellectual property protections and undervalued exchange rate. Just as we are reorienting the US economy to become more competitive and boost export performance, we have worked to encourage complementary changes in China. And we have seen some progress. China has reduced its current account surplus from 9% of GDP in 2009 to 3% today, due in part to an appreciation of its currency by 12% in inflation adjusted terms against the Dollar. In the weeks ahead, China will be considering further measures to sustain Chinese domestic growth by boosting Chinese consumers and creating a more level playing field. As agreed in the Strategic and Economic Dialogue, China's commitments to cut tariffs and consumption taxes and to reduce taxes on services will boost both the buying power of Chinese consumers and also create opportunities for US and other international companies. We will continue our financial diplomacy with China in the days and indeed years ahead, recognizing we have a growing stake in each other's economic choices and a growing need to work together to strengthen the system.

Given the very special audience here today with your outsized ability to mentor and inspire talented women, I would like to make one special observation—the world of financial diplomacy could use a few more good women. Looking around the room at the G-20, it is remarkable that women now account for 4 of the 20 heads of state, 4 of the 20 foreign ministers. By contrast, it is hard to find a single woman among the finance ministers, and Argentina's recent appointment of a woman to head their central bank marks the first in this group. The picture is no different at other levels. After about two years on the job and innumerable meetings, I was asked to join my colleagues for a "family photo" of the G-20 deputies from finance ministries and central banks. Copies of the photo were then distributed at our seats as we resumed discussions. One of my European colleagues glanced at the photo and then took a second long look at it before remarking with considerable astonishment, "I just realized you are the only woman in the room!"

With your help, we can change that. I am pleased to note that this has been a priority at Treasury under the leadership of Secretary Geithner and President Obama. When we engage in financial diplomacy, our power is not primarily from our purse but from our ideas, our intensity, and our initiative. We succeed when we bring smart ideas to the table, when we take initiative, and when we insist on policy solutions that will make a lasting difference in people's lives. We lead best when we lead on the power of our ideas and our ideals. With that, let me conclude. And I'll look forward to taking some questions. [*Applause*.]

Freeland: Okay, thank you very much… That was terrific. When you said, Lael, speaking about—I'd like to start with Europe. And you said, speaking about the Europeans, that they grasp the seriousness of the situation. But do they? Because when we look at how the European crisis has unveiled—and, you know, you've been closer to this than probably any American—it's actually a story of not quite grasping it enough and of always being that one millisecond behind events, behind the markets, not doing quite enough to really staunch the bleeding. Why is that?

Brainard: I think what we did see in Los Cabos—you know, we had the four largest euro area economies there—we did see a very clear shared sense of urgency, a clear and shared sense of the need to move forward. The difficulty, of course, for the euro area presently under its existing institutional structure is that you have decisions that are being made by 17 national parliaments, decisions that need to be made for the markets with the speed of the markets. And so the institutional architecture of the euro area is not particularly well suited currently, obviously, although that is changing, to the pace of decision making necessary during financial crises. That is why, of course, the ECB [European Central Bank] has taken on a very important role, because that is the one pan-European institution that has the instruments and the tools that can move as quickly as the markets. But we're beginning to see recognition and proposals that are being weighed by European leaders to try to evolve the institutional structure to make sure that the monetary union is complemented by the necessary fiscal and, indeed, banking and political architecture to enable much more rapid decision making, much more decisive policy responses at moments that require it.

Freeland: So needing to get 17 around the table is certainly something that we can sort of feel sorry for the Europeans about, but isn't there more than that going on? And in particular, I'm wondering what your view is of the German position. Do you think the Germans are really on board with the kind of measures that you've spoken about, that the Treasury has spoken about, that the IMF has been talking about? Or do you think the Germans really actually don't want to go that far or don't want to go that far without some other pretty serious conditions being met?

Brainard: I think it is important to recognize the really quite profound changes that are being contemplated and that all of the members of the euro area are needing to build political support to undertake. So for instance, on banking union, if indeed there is to be risk sharing at the euro area level on bank recapitalization and on deposit insurance, which I think is now widely viewed to be an area that would be very helpful, there also needs to be, commensurate with that, a transfer of sovereignty, if you will, of supervisory and regulatory powers to the euro area level. Those are very influential and consequential decisions that need to be made by political leaders. The euro area challenge is not going to be addressed by one country alone. And I think there is broad recognition of that. So I think we all have to see the reality of this decision-making process as one that would be challenging under any circumstances and nonetheless continue to urge action. And in our case, you know, we have been both urging action and also providing lessons and ideas from our own experiences. And there are a lot of measures that we undertook during our financial crisis, some of which have been adopted in various forms, some of which are still under consideration. But when we come to the table, we do so with a recognition of how difficult it is for political leaders to muster support for the kinds of profound economic changes that are under consideration and with some ideas about what might work.

Freeland: I think that comparison with 2008 and 2009 is incredibly well-made. And one of the sort of scary things that I've been reflecting on when I think back to 2008 is that actually it took the failure of Lehman for the US to muster the public support for really radical measures. If you sort of look back to that, it wasn't until then that Treasury—and it was a different Treasury—was really able to get support for radical measures. Is Europe going to have to have its own Lehman moment?

Brainard: We've already seen substantial evolution in the policy toolkit of Europe. I mean, if you think about it, we have seen already the creation of a temporary and then permanent firewall. Remarkably, the euro area had no crisis fund for responding to stabilization emergencies within the euro area. They had financing for countries outside the euro area, but not within the euro area. We have seen the banking supervisors in Europe compel stress tests, compel capital to be injected into banks. We're starting to see that now in Spain. We've seen the ECB step up and take some extraordinary measures to inject liquidity into the system. And of course other central banks, including the Fed, have supported those actions. So we've seen already a great deal of response to the evolving challenges in the euro area. And I don't think there is a perfect analogy between any two financial crises, frankly, let alone the one that we confronted here, but it is true that there are some useful tools and instruments and approaches that can be used with effectiveness in different financial circumstances. And that's really where we think the analogies are most powerful.

Freeland: Okay, I'm going to start mixing it up with questions from the floor. This one doesn't have a name attached to it, but the question is—would it really be so bad to go back to the drachma?

Brainard: I think that what you see in the euro area is a very strong political commitment to strengthening the euro area. And you know, the statement in the G-20 Los Cabos community was extraordinarily strong to that effect. And we've heard that across the spectrum in Europe from all the major political leaders, and of course we saw that in the vote that took place on the eve of the Los Cabos summit in Greece. My sense is there is very strong political commitment to make the monetary union strong and resilient into the future, and I think the discussions that are currently very live are, "What's it going to take, and over what timeline can they make those institutional changes?" And again, you know, what we hear privately and what you've seen publicly is a very firm commitment to the euro area, and we don't see any wavering from that commitment as we look across the landscape in Europe.

Freeland: Just to get at that question from a slightly different angle, is it practicable? Because there is sort of talk in the markets that goes in both directions. And one is that, look, the Greek economy is really small, the firewalls have been built, and actually, you could imagine a situation in which Greece does leave the Euro, but the rest of the euro-zone stays together. Do you think that's true, or is that fantasy, and you would instead have dominoes falling and real contagion?

Brainard: No, my sense is that what is on the table right now that euro leaders are talking about, a mix of near-term actions and medium-term actions, is the mix that provides the best prospects for the resilience and the vibrancy not just of the euro area as a whole, but for the individual member states within the euro area. And so if you look across that mix of actions, the firewall is coming into place, but they're working on making sure that it's more credible and more effective, that it is more effective in ensuring that those countries that are the strongest performers have access to affordable financing. There is a very important set of discussions going on about banking union and what it will take both in terms of centralizing authority and also to have a greater ability to share risks. But in the near term, it's important that they move forward to shore up Spain's banking system. And that's why the discussions that are currently under way are so vitally important. And within that broader context, Greece is going back to the negotiating table, and so are euro area partners. I think there's just a recognition on both sides that there was some period where Greece didn't have political authorities that could actually continue down the path of reform, and so of course there needs to be a discussion about how to adjust that path of reform. Again, all those things, I think, are manageable. They're vitally important. They need to move on them, and they need to move with urgency. If they do, I think these challenges are manageable.

Freeland: Now, I think the US has been supportive of the notion, with Greece going back to the negotiating table, of maybe the timeline being negotiable. What about the terms?

Brainard: Greece's economy, over some period of time, developed in directions that made it fundamentally uncompetitive. Now, obviously, the advent of the euro area enabled that in some ways, in the sense that the capital markets were not distinguishing very carefully among the various degrees of risk in the system. Greece is going to—

Freeland: That's a nice way to put it. [*Laughter*.]

Brainard: Greece is going to have to reform. There is no question. Whatever path that Greece were to go down, those same sets of reforms would be requisite in order for it to grow and to be able to create jobs for its people again. The euro area has provided a path in which Greece would undertake those reforms within the euro area. I think there is a discussion that will take place on how the timing of that path may be adjusted. I don't want to prejudge what the outcome of those discussions would be. But I think it is important to emphasize that Greece will need to undertake serious economic reform under any circumstances to restore competitiveness.

Freeland: Lael, the IMF last week made a really strong statement and urged Europe to make money directly available to the troubled banks rather than going through the sovereigns. Do you support that?

Brainard: You know, we have been strong advocates of strengthening European firewalls and making those firewalls as well-designed as possible to address the critical needs of keeping sovereigns in the markets with access at affordable rates and of making sure that banking systems are well-capitalized and as strong as possible. The particularities of how they do that are now actively under discussion, so I don't want to wade into that debate. But I will say we think it's extraordinarily important that, again, these firewalls be as operational and well-designed as possible to directly target the sources of financial stress that are currently prevalent in the euro area.

Freeland: Lael, you said a few minutes ago that you are seeing, you know, much more intensity in the Europeans that you talk to both on the measures that need to be taken and on the timeline. Can you tell us what you think the measures need to be and what the timeline needs to be?

Brainard: Well, I think I—you know, I sort of alluded broadly to a framework earlier and, again, I think it's very important that we see both action to address near-term stresses and to lay out a medium-term path that offers the prospects for the monetary union becoming stronger and more resilient. That revolves around growth. It's critically important to support demand in the short run. We're starting to see more of an emphasis on that and more of a recognition that it is important to calibrate the path of adjustment of fiscal consolidation to ensure that countries are not contracting and consolidating too sharply into a downturn because that risks both the fiscal targets and the growth—the needed growth to make that path sustainable. Secondly, of course, ensuring the banking system is well-capitalized and well-funded is critically important. The ECB's actions have been extremely important in that regard. Spain's current determination to move forward with recapitalization and to have support from its European partners is critically important and, more broadly, I think we now see a dawning recognition that the path to a stronger monetary union lies in part through a banking union, again, with risk sharing and supervision sitting at the centralized area—the centralized level of the euro area.

Freeland: And timeline?

Brainard: The timeline—we have the leaders' meeting at the end of this week. I think we'll all be very interested in seeing the outcomes from that meeting. But of course, for some of these institutional changes, those will take some time. I think what the world is looking for are some near-term actions that can be done relatively quickly with the authorities that now exist or are coming into force and then a path forward that shows a more sustainable and complete union on the financial, fiscal, and political front to accompany a monetary union. That will necessarily take place over a somewhat longer timeline, although again, I think markets and the world are looking to understand better what that path is going to look like now.

Freeland: Do you think the markets have imposed a sort of a deadline? Is there sort of a clock that's ticking down? I know Mario Monti has given now a few interviews in which he says there's just a week to go to save Europe. Now, he's given those a few times to different publications, and the week has passed. So that's sort of reassuring. George Soros gave a speech in Italy—I think it's now three and a half weeks ago—where he said there's just three months to go. Do you have a personal moment you've marked on your calendar and said, if they don't fix it by then—[*Laughter*.]

Brainard: So I think the general observation, you know, we make having sort of observed or participated in, you know, a series of financial crises is that the markets overreact and so too most policy makers. This is a kind of the Zedillo, you know, sort of, I think, policy lesson from the 1994, '95 Mexican crisis, which is—which remains really true across all financial crises. And you know, it is important to get out ahead of markets. The sooner you get out ahead of markets, the cheaper the bill ultimately is. And so, you know, that is kind of standing advice in financial crises. But, of course, that has to be contextualized and, again, the euro area has a particular set of challenges. They have a very strong pan-European institution in the European Central Bank, which has a lot of capacity. But for some of these medium-term political decisions, it will require support from 17 national legislatures. And of course we all know here that that requires a lot of time and a lot of work.

Freeland: Do you ever, in these conversations that you have with the Europeans, do you ever get push-back? I mean, do they ever say to you, "Look, come on, actually this whole financial crisis is made in America, and now you guys are coming over here giving us advice on how to fix the repercussions of your own bad financial management?" [*Laughter*.]

Brainard: The reason that we're in the room is because there are—there are decision makers in Europe who want us in the room, who bring us into the room. They generally, I think, are having a very lively debate about the decisions that lie before them, and I think our perspective has been valued, demonstrably so, because we are very frequently invited to be part of these conversations. And I think we enter into these conversations in a spirit of friendship, looking to help solve problems, and that is appreciated. That all is premised on us already having taken full responsibility for the financial crisis that happened here in the United States and taking very aggressive measures to address the root causes of that crisis. And I think there is nobody internationally that has not seen the Dodd–Frank agreement, the stress tests, very aggressive capital injections into our banking system, the much larger capital buffers, the very large stimulus that was put in place, and then subsequent decisions to extend support to the jobs market as a insurance policy, in part against recurring bouts from abroad. So I think, you know, part of the reason that we're welcomed into those conversations is because we recognize that we have our own problems here at home and that we are working to address them. And we always start our conversations, wherever relevant, by talking about our own fiscal challenges that lie before us and how important it is for us to address them. So you know, there is no sense in which we would not start by recognizing the need for a country as large and important in the system as the United States to take very active measures to address any risks and to create a more stable financial system, for us and for the world.

Freeland: Going to turn to another question from the hall. What is the impact of the European crisis on the US economy, and in particular, what impact is it going to have on the election?

Brainard: We have a recovery that is—gained some momentum but is still fragile. And it has been buffeted by headwinds from Europe several times now. Europe is large. It's large as a trading partner for us, accounting for 15% of our exports. It's a hugely important export market for a lot of the countries that are export markets for us, like China, for instance. European banks are highly active globally, and so if they are deleveraging, that slows economic activity worldwide. As financial markets in Europe become more volatile, that slows and dampens sentiment here at home. So Europe has mattered tremendously to the world and to our recovery. And again, that's why we are so intensely engaged with our European partners.

Freeland: I'm being told that we have very little time left, so just a couple more quick questions—

Brainard: Yup.

Freeland: And although I think that we all are preoccupied by Europe and I know you are, I'll try to mix it up a little bit. So this is another question from—I think it's Michelle Brooks. And the question is, with so many of the donor-developed countries facing big economic problems at home, what's going to happen to foreign aid?

Brainard: You know, we are—we are working very hard with our foreign partners to try to make sure that foreign assistance is not negatively impacted by the stresses that are being experienced, in particular by our European colleagues. You know, for our part, we've been pleased to be able to increase, in fact, assistance to priority areas like global health and food security, to be very active in our foreign assistance to help ensure that the promise of the Arab Spring is followed by greater economic opportunity for the many young people that ushered in those changes. And you know, we are working with new donors as well. If I look at food security, for instance, we've been looking to countries in the G-20, outside of the G-8, to help make up for some of the financing that may be—that may be somewhat reduced from our European partners. So it's a very high priority for us, and we're going to do the best we can domestically to sustain domestic support and, you know, to look for a broader group of donors to make sure that foreign assistance continues to flow to critical priorities like food security and global health in critical areas of the world, like Africa and Arab Spring countries.

Freeland: Okay. We can't seem to fully get away from Europe, but maybe a little bit. This is a question from Kathryn Hauser. I think I read the name properly. And it boils down to, what's the role of the UK now?

Brainard: So I think what is interesting is that as the euro area is trying to figure out its own path forward, the UK, for its part, has to figure out how to be supportive on the one hand, and how to navigate forward a single market within the EU while acknowledging that the euro area will have to pursue deeper integration in its banking system than was initially envisaged when the set of decisions was made between the EU and the euro area on how to divide responsibilities for monetary policy on the one hand and financial regulation supervision on the other. So the UK, I think, is very actively engaged for those reasons. The UK, of course, is also a very close trading partner and has a highly interconnected banking system with the euro area, and so it has an intense interest in the discussions in the euro area. And you've also seen the UK authorities taking some measures to insulate their economy, measures that, frankly, we had already anticipated some time earlier, and I think the President was already quite cognizant of the need to take an insurance policy earlier, and we're seeing that today with somewhat more of a robust recovery here in the US.

Freeland: I'm just going to ask a quick follow-up to that one, which is, does this sort of simultaneous European banks really being integrated quite closely in terms of regulation, in terms of what their government backstop is, and Britain being separated much more—is that the beginning of the end for the city of London?

Brainard: You know, that is not a question that I'm the best suited to answer. I think you'd have to talk to UK authorities. My sense is that we are all, through the FSB, actually putting in a conforming set of changes on supervision and regulation. So it's really not just confined to the EU. The same kinds of things that we've been driving through Dodd–Frank and its implementation are things that, you know, we were very intent on securing in the FSB. And so already I think UK regulators are putting in place, as we are, a set of quite important changes to the supervision of their financial system that should be conforming with those being undertaken in the euro area. So I think it's quite possible to see, you know, a path forward where we have stronger supervision and regulation across all the major financial jurisdictions in a way that actually creates a level playing field and creates a more resilient, frankly, financial system for all of us.

Freeland: Okay, last question, and this one is from Maxine Isaacs. And she, like me, read Anne-Marie Slaughter's article and wants to ask something related to that. So we know you're superwoman, we know you are the Vulcan, we know you are a machine, but tell us your secret—how do you manage to do this incredibly demanding job and have three kids? [*Laughter*.]

Brainard: I studiously try to stay away from making any personal observations in a public setting. But, you know, we're all the same, moms and dads, and even those without children, you know, we're all juggling every day. We try to do the best we can at our jobs, be the best parents we can, be the best children we can to ailing parents. And, you know, I take a great deal of pleasure from my children and from my work, and I think that is really the thing that makes it all possible. But I do want to emphasize that, you know, the challenges we all face are no different from those of, you know, millions of working Americans, and we all just do the best we can. And hopefully, our kids turn out pretty well and our jobs don't turn out too badly either. [*Laughter*.]

Freeland: I have a quick and very specific follow-up—do they complain when you travel a lot?

Brainard: I keep in constant communication with my children, as anybody that travels with me will tell you. They can't find their sneakers, they call. They don't know whether their basketball game is in Virginia or DC, they call. [*Laughter*.] So it is—it's great to be enabled by modern technology. [*Laughter*.]

Freeland: Okay, thank you very much Lael, thank you.

Isaacs: On behalf of the Women's Foreign Policy Group, I want to thank these two very extraordinary women for taking time out of your very busy schedules to be with us today. And on behalf of the Women's Foreign Policy Group, Lael, I'd like to present to you an award. It's a very modest award, but not—our appreciation is much—is enormous—and for your leadership and commitment to advancing women's role in the global economy and your leadership in foreign affairs. So thank you very much. [*Applause*.]