CNBC

"TIM GEITHNER"

INTERVIEW WITH TIM GEITHNER

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00:00:00:00 (OFF-MIC CONVERSATION)

STEVE LIESMAN:

00:00:22:00 Mr. Secretary, thank you for joining us.

TIM GEITHNER:

00:00:24:00 Happy to be with you, Steve.

STEVE LIESMAN:

00:00:25:00 Great, so let's talk about the news-- of the day, and indeed the last couple weeks. How-- how do you gauge the effects of the European crisis on the U.S. economy?

TIM GEITHNER:

00:00:37:00 Well Steve, you know, it depends ultimately on what they do. But they're-- they played out a very strong program, and they're starting to put that in place, and they're starting to get a little more trac-- more traction now. I think they're demonstrating that they have the ability to solve this, and they've certainly got the political will to do it. But, they just gotta demonstrate that over time.

STEVE LIESMAN:

00:00:53:00 D-- do you think what's happened to this point is enough to reduce the-- growth in the United States?

TIM GEITHNER:

00:01:00:00 Well Steve, I think it's important to note that we came into this, the world economy came into this period of concerns about Europe with stronger underlying momentum and growth than many people expected, and we're in a much stronger position today to get through this. I think the world economy does really look like it's gadually-- gradually getting stronger, that's certainly true for the United States. So again, I think we have a moderate but pretty solid recovery in place.

STEVE LIESMAN:

00:01:23:00 And-- and that doesn't change because of what's happening in Europe, that outlook?

TIM GEITHNER:

00:01:26:00 Well again, you know, Europe's just gotta-- they gotta demonstrate, and-- and I-- you know, they have the capacity-- to manage this, they just gotta demonstrate that they're gonna carry through and put in place this program of reforms, policy reforms, and financial support.

STEVE LIESMAN:

00:01:39:00 And we-- we've seen U.S. money markets come out of Europe, and-- deposits in the ECB surge, is that-- is that-- a sign to you that maybe the situation is worsening there?

TIM GEITHNER:

00:01:51:00 No, I-- as I said, I think they're gradually getting-- starting to get a little more traction now, and I think those concerns are moderating a little bit. But again, you know, m-- markets wanna sa-- it's sort of natural. Markets wanna seem them put in place this very strong program that they laid out a few weeks ago.

00:02:05:00 (OFF-MIC CONVERSATION)

STEVE LIESMAN:

00:02:45:00 Mr. Secretary-- you-- you alluded to this earlier, but let me ask you this. Do you believe the European plan on the table right now is sufficient for Europe to solve its problems?

TIM GEITHNER:

00:02:55:00 I think it's a very strong plan, and it's got the right elements. And again, I think their challenge is just to make sure they move forward and put it in place. And that's what they're doing. You know, you saw Germany move very quickly to pass the-- their piece of the financial support package. You're seeing Spain and Portugal act to put in place stronger fiscal plans. You see Greek-- Greece is moving on their program, they just gotta continue to move.

STEVE LIESMAN:

00:03:19:00 You talked yesterday about needs for greater transparency. And I guess that was in relation to the banking system. What specifically do-- do they need to do when it comes to greater transparency?

TIM GEITHNER:

00:03:29:00 Well you know, we're all engaged in this really importa-- important broad global financial reform effort. And a key part of those reforms, both in the United States and around the world is to bring greater transparency both to the major institutions in these markets, and to the markets themselves, like derivatives markets.

00:03:43:00 So we're working very closely with Europe, the other major financial centers, to try to make sure we have strong standards for transparency and disclosure across these markets. Markets work better-- when they're not operating in the dark, markets work better when investors have the capacity to better assess risk in these institutions. And that's why we're pushing so hard, again, to make transparency a core part of these reforms.

STEVE LIESMAN:

00:04:04:00 Mr. Secretary-- journey to another part of the world, does the slow down in China represent a threat to the U.S. recovery?

TIM GEITHNER:

00:04:12:00 Again, I think-- I think emerging markets around the world, and it's certainly true for China, but it's not just China, you can say this about

India and Brazil, about Mexico, again, about emerging markets really around the world, it's Asia, Latin America, they-- they look very strong now. And they came into this-- we all came into this period of-- of concern about Europe with stronger underlying fundamentals, stronger underlying growth momentum. And again, I think that looks-- largely intact.

STEVE LIESMAN:

00:04:39:00 One of the effects of the European crisis has been a stronger dollar. Do you expect this to have an impact on U.S. exports and make them less competitive around the world, especially when the administration is trying to bolster U.S. exports?

TIM GEITHNER:

00:04:51:00 Well you know, Steve, I don't-- I-- I try never to comment on markets, but generally, again, if you look at the shape of the recovery in the United States, it's-- it's very encouraging. You know, we're seeing private investment increase at a pretty healthy rate. You're seeing exports increase at a pretty healthy rate. We're saving more as a country, we're borrowing much less from the rest of the world as a share of our economy.

00:05:09:00 So I think they have the fundamentals in place of-- a, you know, much more durable-- much stronger recovery led by the private sector. Stronger export growth can be part of that, and again you're seeing that in pretty healthy export growth over the last several months.

STEVE LIESMAN:

00:05:21:00 Sor-- sorry, that one statement, you said borrowing much less as a share of our economy. Our deficit, the percentage GDP almost 12 percent?

TIM GEITHNER:

00:05:29:00 Well you know, the-- the measure we use about how much we borrow from the world as our current account imbalance.

STEVE LIESMAN:

00:05:32:00 Okay.

TIM GEITHNER:

00:05:33:00 And that imbalance used to be about between six and seven percent of GDP, it's now about half that level. So even though you've seen our budget deficits rise because of the recession and because of the measures we had to take to solve the crisis, we're borrowing much less from the rest of the world to finance those deficits, and that's a very healthy thing.

00:05:49:00 That's because the American families and the American businesses are saving more, that's a necessary, healthy adjustment. And I think it should make us-- much more optimistic, much more confident about the recovery. You know, the great strength of the United States is we adjust very quickly. You know, we-- we faced a huge devastating crisis, but we adjusted very quickly.

00:06:08:00 We took very forceful actions early, so our economy is much stronger today, and our financial system is much stronger today. And again, you're seeing healthy signs of the U.S. starting to save more, invest more, that's gonna be important to the future.

STEVE LIESMAN:

00:06:20:00 Let me turn to some-- domestic-- politics, which is closely related to your trip to Korea. On financial regulatory reform, how far apart do you gauge the Senate and the House to be? Especially on issues like derivative regulation and the VOCA rule? And what do you-- what do you-- what kind of deal do you expect to come out of it?

TIM GEITHNER:

00:06:38:00 Well, I think you've seen both Chairman Frank and Chairman Dodd say that they think the bills are very close, and they can resolve the remaining differences really very quickly. And I think they're right. Again, this-- this package of reforms you saw pass both the House and the Senate now have very strong protections for consumers and investors.

00:06:54:00 They put in place much greater constraints on risk taking by the major institutions, they give us the capacity to manage future financial crises without asking the tax payer to bear any of those costs, so we can deal with future AIG's, Lehman Brothers, you know, without asking the tax payer to bear any of the costs of those crises.

00:07:10:00 Those are very important refer-- reforms. They include a fundamental reform of derivative markets to bring more transparency and disclosure, much greater protections to give the supervisors, the regulators the power to police fraud and manipulation. The broad elements of the bill are very strong, and they're very similar, and I think they should be able to work out the differences-- very quickly.

STEVE LIESMAN:

00:07:29:00 But-- but in a couple areas, they're pretty far apart. This issue, for example, of the ba-- ability of banks to trade in derivatives. What do you ultimately expect to be the shape of that, taken apart of legislation?

TIM GEITHNER:

00:07:39:00 Well you-- you're right, the-- the-- the bills came out at a slightly different place in those areas, and some other areas. But-- those two chairmen are very capable people, and they're gonna work through it. And I'm very confident that they're gonna find the right balance.

00:07:51:00 You know what, the balance we're trying to strike is to have a much stronger protections for the economy, for businesses and for families, again for risks in markets. But we also wanna preserve a market, a financial market that allows for innovation, allows for-- dynamisms so that it does a better job in the future of financing future growth in American companies.

00:08:10:00 And they got-- we gotta get that balance right. As a country, we got that balance wrong. And we had a devastating crisis because of it. But I think those two chairmen-- they understand the need to find the right balance, and I'm confident they're gonna do that.

STEVE LIESMAN:

00:08:20:00 When do you expect to deal 'em, do you expect it to be bipartisan?

TIM GEITHNER:

00:08:24:00 Well, what they've said is that-- they expect to have this done in the next several weeks, certainly by the time of their Fourth of July break. That's certainly the seeable (?) outcome, that's important to the president. And-- again, I think this basic cause of a financial reform is a bipartisan cause , and there's no reason you s-- shouldn't see this bill pa-- these bill pass-- this bill pass with significant-- bipartisan majority.

STEVE LIESMAN:

00:08:47:00 One criticism of the administration on the financial regulatory reform area has been the omission of Fannie and Freddie from financial reform. Why wasn't this part of a broader bill, and when do you expect to address it?

TIM GEITHNER:

00:08:59:00 It's-- it's a very good point, and you're absolutely right. And we certainly welcome the broad support we've heard from Republicans and Democrats about the need to go forward on reform. And we're gonna move on reform of Fannie and Freddie and the broader housing finance system as soon as we get this bill passed.

00:09:12:00 We've had a very careful process in place now for the last nine months to look at options, alternatives. And again, I think we should be able to move quite quickly once we get this first stage of reforms in place. And people are right to believe and right to recognize now that Fannie and Freddie need fundamental transformation.

00:09:28:00 And-- again, I'm confident you can-- we're gonna be able to deliver that, because again, you see broad support among both Republicans and Democrats for the recognition that we've gotta change that basic system of housing finance.

STEVE LIESMAN:

00:09:37:00 Let me turn now to the purpose of your trip heading to Korea. Among the-- the topics, global regulatory reform. Broadly, what-- in that regard, what do you expect to come out of this meeting?

TIM GEITHNER:

00:09:48:00 Well this-- this meeting is really to prepare for the leaders meeting in Toronto in June, and for the leaders meeting of G-20 in Korea in November. So what we're trying to do is to make sure we have a stronger, common strategy both on growth recovery and on financial reform.

00:10:02:00 You know, these markets are global, risk doesn't respect national boundaries. It's gonna move to where the constraints of the-- or the standards are weakest. And so we all have an important stake in making sure we have a strong set of consistent standards in place across these global markets, across these global institutions.

00:10:19:00 And what we're gonna try to do in-- in Korea over the next day or two is to try and make sure we're solidifying that consensus, so that we are all are recommit to have a consistent framework. Again, a framework that strikes the right balance, on that, you know, brings greater protections for the economy, for businesses, and for consumers, but still preserves for some capacity for innovation so that mar-- these markets-- these financial markets can do a better job of serving the needs of the economy.

STEVE LIESMAN:

00:10:42:00 Do-- do you-- hope to have global capital-- regulator-- sorry, global capital standards, new ones in place by the end of this year?

TIM GEITHNER:

00:10:52:00 We-- we promised-- we committed together that we would reach agreements on those reforms by the end of this year, and then will provide for an appropriate transition period for institutions to meet those new standards. And-- I think it's very important we achieve that.

00:11:05:00 The markets wanna have certainty about what the rules of the game are gonna be, and these new rules on capital, on leverage and liquidity, are gonna be I think the most important element of the reforms we put in place in the United States and around the world. Now the-- the people involved in the details of this are making a lot of-- progress in narrowing the differences.

00:11:22:00 And I think you're seeing around the world very strong commitment to putting in place, again, stronger constraints on the risk taking, stronger constraints on leverage, trying to make sure these institutions take on less risk, are managed more conservatively, managed with more stable funding. That's a broad imperative we all share.

STEVE LIESMAN:

00:11:40:00 If-- if the U.S. capital ratios are eight percent in general, I think that may be the right way to think about, what is the number that is the right number for the globe?

TIM GEITHNER:

00:11:50:00 That's what we're working through now-- Steve. Again, we wanna find a balance between making sure that these firms run with much more conservative, much stronger cushions against the risk of loss, future crises. But we also wanna make sure, again, that the financial system can do its job in meeting the needs of the-- of-- main street businesses across the country.

00:12:09:00 So we gotta find that balance. But U.S. firms come into this because of the actions we took early in our crisis to recapitalize the financial systems. U.S. banks come into this with much stronger capital positions, that is true for most of their competitors around the world.

00:12:23:00 So I think U.S. is in a very strong position now with these bills about to pass, and the much stronger financial position of the major U.S. firms to lead the world to much more c-- much better designed, more conservative constraints on risk taking, including these constraints on leverage.

STEVE LIESMAN:

00:12:39:00 Does the United States have a number in mind right now, and would you share that with us?

TIM GEITHNER:

00:12:45:00 We have a number in mind, but I'm not gonna (LAUGH) share it with you today, as you-- as you can understand. Again, we wanna-- we wanna bring the world to higher standards-- that's gonna be important for the stability of the global financial system. And it's important to make sure our firms are competing on a level playing field. And-- and I'm confident we're gonna be able to achieve that.

STEVE LIESMAN:

00:13:02:00 I-- I'd have to just ask, I've heard 12 percent, is that-- is that not the number?

TIM GEITHNER:

00:13:07:00 I'm not-- not quite ready yet, Steve, to talk to you about the details of the numbers. But again, you're right to begin by se-- by pointing out that U.S. firms have much stronger capital positions today than they did going into the crisis, and certainly that is true for the average of their competitors globally. And so I think we're in a very strong position, as I said, to lead the world in pulling the world to stronger standard.

STEVE LIESMAN:

00:13:26:00 And I'm sorry, Mr. Secretary, just one more attempt to squeeze some of this out of you here, but this idea that-- when you say more conservative, do-- do-- do you mean that the-- whatever the number is in the United States right now, that you propose and favor a higher number for U.S. banks than it is currently?

TIM GEITHNER:

00:13:40:00 N-- n-- no, I'm-- I'm not gonna help you with that particular question. I'm just gonna say they-- they're gonna be more conservative than they were coming into this crisis, which is absolutely essential. And again, we've already taken dramatically important steps to strengthen the capital position of U.S. firms.

00:13:58:00 That's what we did through our stress test and through the recapitalization program we put in place last year. That was very effective, we moved way ahead of the rest of the world, and we're in a much stronger position-- as I said, to-- to make sure we strengthen the global consensus on a set of global standards-- that support those objectives we have in the United States.

STEVE LIESMAN:

00:14:16:00 You-- you spoke yesterday, Mr. Secretary, of the need for sort of growth friendly fiscal policies. And it sounded to me a bit like you want it both ways. You want countries to spend, and yet you want them to cut. Which is it?

TIM GEITHNER:

00:14:28:00 Well, we-- we all have a similar challenge now, and-- I think we all recognize that the recovery will not be strong enough if people live with concern about the political capacity of governments around the world to restore gravity to their fiscal positions. On the other hand, right now, the challenge we all face is trying to make sure that we have a recovery led by the private sector that's gonna be self sustaining as we move to withdraw those-- that exceptional stimulus that we-- that we all had to put in place.

00:14:53:00 So we're trying to find the right balance. That balance is gonna differ across countries. That's the central challenge we all face in economic policy, now fiscal policy, monetary policy around the world. And-- the United States, it's important to recognize, is in a much stronger position to manage those challenges than is true for many countries, 'cause we have stronger underlying growth rates, we're a younger country, our initial debt burden was much lower coming into this crisis.

00:15:17:00 It's gonna be a challenge for us, but the President's laid out a very strong set of commitments to bring down our fiscal deficits over the median term to reduce them by more than half of the share of our economy. And you know, this is a challenge that we can manage, it's gonna require a slightly different balance-- in countries around the world, 'cause countries are in a different-- different positions.

STEVE LIESMAN:

00:15:34:00 Mr. Secretary, tomorrow here in the United States, we get the-- the jobs report that's gonna be-- it's-- it's being very closely followed at this point.

Big chunk of it will be census workers, markets will be focusing on the private sector aspect of this. Do you believe that the jobs market has definitively turned the corner here and that the private sector now is generating j-- enough jobs here?

TIM GEITHNER:

00:15:55:00 The economy has-- now been growing now for four quarters. And you've seen in the last-- five to six months, pretty steady gradual increase in the amount of jobs in the private sector (UNINTEL). And all the indicators suggest-- that-- that's getting stronger. Now we can-- now, it's not gonna be even, it's not gonna steady, it's still gonna take a while.

00:16:15:00 You know, as you know, Steve, this crisis caused just devastating damage-- to confidence across the country. That's gonna take a while to heal. But again, the-- the-- broad measures we see, despite the pain across the country, most-- many businesses, many families are still seeing the broad numbers show steady, gradual improvement in confidence and in the strengths of the private sector, private demand, private investment. And you're seeing that starting to translate into longer hours, work-- more jobs being created. And-- and therefore, stronger income growth for the average American.

STEVE LIESMAN:

00:16:51:00 Mr. Secretary, a couple more questions if you don't mind. A growing number of people are walking away from their mortgages. There was a front page story in *The New York Times* about this. And-- and borrowers who are using HAMP program, ma-- many are re-defaulting. Is that a waste of government money?

TIM GEITHNER:

00:17:06:00 No, absolutely. These programs that the President placed are-- are now helping more than a million Americans-- modify their monthly payments, and give them a better chance to stay in their houses. Now, these programs cannot reach, and were not designed to reach-- all Americans caught up in this crisis. We-- we couldn't really justify doing that.

00:17:26:00 But they're very strong programs, they're very powerful programs, and alongside the actions we took and the fed took to help bring mortgage interest rates down, it's helped b-- bring a measure of stability to the housing crisis that was so devastating.

00:17:38:00 And-- again, this is-- this is a very carefully designed, sensible set of policies and they're helping limit the damage of this crisis, helping to bring a measure of stability, helping be-- give people a chance-- those people who can stay in their homes, given a chance to-- to take advantage of that opportunity.

STEVE LIESMAN:

00:17:54:00 F-- final question, Mr. Secretary-- there are those who complain this administration has an anti-business anti-wealth policy, and they point out the higher taxes on the wealthy, they point out the plans for higher dividend and capital gains tax rates. Would you respo-- respond to that?

TIM GEITHNER:

00:18:11:00 I've-- of course, heard those concerns-- and-- and it's understandable when people face change in the basic rules of the game. It's true in financial reform, you can see it's true in-- the debate underway about how we use energy in the United States. And it's-- it's gonna be true in some aspects of tax policy, that-- that does create uncertainty. It's understandable.

00:18:31:00 But what we're committed to do is try to make sure that we are making sure the government of the United States is doing a better job doing things governments have to do, like educating our children, like making sure our financial system does a better job of meeting the needs of main street America. Those are fundamentally roles of government that our government did not do a very good job doing.

00:18:51:00 And we're trying to fix that, recognizing that of course, growth comes from the private sector, and our future's gonna be-- gonna be determined by our success in creating stronger incentives for innovation and for private investment. That's what we're committed to-- to.

00:19:05:00 And again, if you look at-- the basic health and strength of the U.S. economy, relative to where it was a year and a half ago, the U.S. private sector, the U.S. business community is in a much stronger position today. We are leading the world in creating things countries need around the world. That's why U.S. exports are growing, that's why we're coming out of this crisis more quickly than is true for many of the other major economies.

STEVE LIESMAN:

00:19:28:00 Mr. Secretary, you've been very generous in answering my questions, anything else you wanna add about your trip or anything else we forgot to talk about?

TIM GEITHNER:

00:19:35:00 No, you had excellent questions as always Steve, good to talk to you.

STEVE LIESMAN:

00:19:37:00 Safe travels, Mr. Secretary.

TIM GEITHNER:

00:19:40:00 Thank you.

STEVE LIESMAN:

00:19:40:00 Thanks for joining us.

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