

# “GeoEconomics and the Emerging World Order: The Power of the U.S. Dollar”

## Interview with the Honorable Jacob J. Lew



### **What are the unique attributes of a dominant global reserve currency that make the U.S. dollar such a potent tool in the national security toolbox?**

Let me start with the positive—being the world’s reserve currency gives us enormous capacity to support our own fiscal and trade objectives in a way that strengthens our economy and our country. One of the reasons that the United States has the ability to borrow as much as it needs to at a moment like this—during a pandemic, when other countries might not have such easy access—is that when you have the world’s reserve currency, there is depth and liquidity in the markets for your securities unavailable to other currencies.

That does not mean we should be irresponsible with our fiscal policy, but at a moment like this, it means we have a nearly unlimited ability to meet our immediate needs. That is a real source of strength; no other country has that. In terms of trade, the fact that goods and services around the world are transacted in dollars creates a centrality to the U.S. economy for the purpose of financing commercial enterprises. And that, again, is a source of enormous strength for our economy that gives us great influence both domestically and internationally.

In terms of the power of the dollar as the world’s reserve currency, it gives us the ability, when needed for national security reasons, to advance our interests through sanctions and other mechanisms to command the attention of other countries. Being the largest economy in the world and having the world’s reserve currency means that if you cannot do business with the United States or transact business in U.S. dollars, you face a serious burden.

That power must be used with great judgment and care in order for it to maintain such strength. In the past this power was not thought of as a strategic tool. It was thought of as an economic tool. My view

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Jacob “Jack” Lew served as Secretary of the U.S. Treasury 2013-2017. This interview was conducted by Michael Miklaucic on 24 September 2020.

is it should be thought of as a strategic tool and husbanded to protect its durability, so that it will be there not just now, but in the future; and there are a lot of parallels in terms of how this power should be used, to the way military planners think about using military tools.

**Could you go into more detail on the specific techniques that the United States has utilized to deploy the dollar in support of foreign and national security policy?**

During a financial crisis we can create liquidity in dollars in another economy by actions that we take as a government or through our central bank, the Federal Reserve. When we disapprove of the policies of another country, we have the ability, through a variety of statutory sanctions authorities, to decide whether or not individual entities or persons in a country, or another country itself, can trade with the United States.

We can choose whether to carve out exceptions for things like food and medical supplies, and we have the ability—by opening and closing our markets to trade—to create access to or block access from the world’s largest markets. This gives us leverage to drive policy discussions in other countries.

One thing we must remember is that whenever we talk about using these tools, we are talking about, “what does it take to get a foreign sovereign to change a policy that for its own reasons it has already decided is in its own national interests?” This is not neutral territory. Whether we are discussing Iran or North Korea or any other country subject to sanctions—they have made a decision on what their national policy and their national interest is. When we apply a sanctions regime, what we are saying is, “We are going to inflict a burden on your economy and the only way to relieve that burden is to change the policy that we object to.”

There are three central lessons as to how sanctions can be used effectively. One is, we are always

better off if sanctions are imposed with broad support of like-minded countries. That does not mean relinquishing our right to act unilaterally when it is in our national interest, but the leakage and the difficulty of implementation grow considerably when acting unilaterally. And there are questions, ultimately, that come into play in terms of whether or not unilateral action is an appropriate use of our unique position.

Second, if we impose sanctions for the express purpose of getting a government to change a policy; i.e. “You are doing x; unless you stop doing x, or reverse x, the sanctions will stay in place;” we must remove the sanctions when the remedial action is taken, because the goal of the sanction is not primarily to cause pain. In fact, we often try to avoid causing pain to the citizens of another country because the goal is not to have the people in that country hate the United States; the goal is to get the sovereign to change its policy. Like collateral damage in war, you try to limit the pain. If you are not prepared to lift the sanctions when a foreign sovereign changes its policy as you have demanded, you must ask yourself whether the sanctions you have imposed are simply a tool of inflicting pain, rather than a means of achieving a strategic objective. And even more fundamental to the goal here, if there is no certainty that compliance with a demand will mean relief from the economic hardship, why would another sovereign change its policy?

Third, we must have the ability to implement sanctions effectively, both in terms of tracking transactions of a specific party or a country that has been named as a sanctioned entity, as well as getting other countries to cooperate with us.

Here is an example in which that is so critical: Imagine trying to impose a sanction on the importation of oil from a specific country. Oil travels over many seas and can be trans-shipped through many places. A sanctioned country has many ways to escape the sanctions through either reflagging or

transshipping. If you don't have cooperation, the effectiveness of your effort will be substantially reduced.

There is a danger in seeing sanctions in the narrow sense of, "how much pain can we inflict?" We have the ability to inflict considerable pain by denying access to transactions in dollars or markets, where either we control access, or those reluctant to risk losing access to U.S. markets will honor our wishes. But unless sanctions are tied to a strategy to accomplish a change of policy, and there is a willingness to relieve the sanctions if the policy changes, sanctions may be a tool to inflict pain, but they will not advance strategic objectives.

To put it in a broader context, all those tactics implemented by the U.S. Treasury Department, the State Department, or the Commerce Department must be strategically applied in service of a foreign policy objective. There has to be engagement—either directly or indirectly—in order for the targeted foreign sovereign to understand clearly what must change in order to have the sanctions relieved. In the absence of such engagement, sanctions are a blunt instrument less likely to deliver the desired end result; and also one that could cause the United States to be seen in a less favorable light with diminished stature.

**During your tenure as Secretary of the Treasury, how did the use of sanctions, designations, and the other tools that were at your disposal evolve?**

We used sanctions quite aggressively in a number of instances: certainly in the case of Iran. To get Iran to agree to wind down its nuclear program there was a ratcheting up of sanctions, and it involved a combination of legislation providing expanded authority, and the execution of sanctioning measures to implement that authority.

One of the interesting tensions is between the legislative branch—which has to give the executive branch the authority to impose sanctions—and the executive branch, which wields the tools. The

legislative branch may well want to send a tough message by demanding that economic sanctions be imposed, but may not always be comfortable with the need to roll back sanctions when an agreement on policy is achieved; or as sensitive to the diplomatic cross currents that sometimes require compromises to be made in how sanctions are used. Ironically, such compromises may seem like "weaker" U.S. penalties, yet they may be more effective if the world community working with us is more united.

If you go back to a debate in 2009 over new sanctions on Iran, the original legislative design would have subjected countries that we needed cooperation from to likely penalties. At that time, Russia and China were necessary partners in pressuring Iran, but securing their support required making some concessions that were a tough sell with Congress. There was lengthy negotiation with Congress to carve out a pathway for obtaining that support from Russia and China; for China that meant allowing for a different reduction rate of Iranian oil imports since an immediate cessation of oil exports from Iran to China would have been devastating to China's economy. Offering a more gradual reduction was a way of getting China into the group of countries putting pressure on Iran, even though an immediate and comprehensive cut-off of Iranian oil exports could have put more immediate dollar pressure on Iran. The configuration of the P5+1 negotiation that led to the nuclear agreement with Iran—the Joint Comprehensive Plan of Action (JCPOA)—probably would not have worked without the broad multilateral support that it had.

We can debate whether or not JCPOA was a good agreement, and whether the United States is in a better or worse place with its withdrawal; my view on that is pretty clear, having been part of the team that pressed for, and agreed to the JCPOA. But regardless, broader international support for a disciplined sanctions program, and the negotiations to

resolve the nuclear issues, strengthened the ability to force Iran to make concessions.

Political tension can sometimes be a helpful tool for the Executive when it enables negotiators to say to the Iranians, “the Congress wants even tougher terms.” So, there is a bit of “good cop, bad cop” in the relationship between Congress and the Executive. It is often useful to explain to counterparts in other countries that you have tremendous pressure from the Congress and need those countries to do more. This dynamic is at work with adversaries, like Iran, but also with allies for whom tough sanctions might be more difficult either economically or politically.

The sanctions we imposed on Russia during the Obama administration were in response to Russia’s aggression in Ukraine, particularly its seizure of Crimea and destabilization—if not occupation—of Donetsk and Luhansk in the east. This is a violation of international law and a threat to Ukraine’s sovereignty. We decided to use the economic tools at our disposal to put pressure on Russia, first to stop Russia where it was; and second, to force a negotiation, with the goal of ultimately restoring Ukraine’s sovereignty.

There was an extended debate over whether to impose the full package of sanctions in the first instance, or to use an incremental strategy. At that moment the United States and Europe were emerging from the Great Recession and Europe was having an even harder time recovering. For sanctions against Russia to be effective, it was critical to have European cooperation. Moreover, a deeper recession in Europe—our largest trading partner—might spill back over causing a second wave of recession in the United States.

What we designed are the most surgical sanctions that have ever been imposed. Within the Treasury Department we called upon all of the expertise of every office to fully understand the wiring of international flows of funds and currencies, so that banks in western Europe and the United States would not be destabilized by our

actions, as we surgically targeted those players we wanted to feel the pressure.

Doctrinally, there is a choice between launching all possible sanctions at the outset or taking incremental steps that show that you can and will ratchet up the pressure if you do not get a response. In my opinion starting with everything gives you nowhere to go. If one of the purposes of economic sanctions is to expand the tool kit for policymakers to delay or avoid the use of force, you need an escalation model that tells your adversary, “This is going to hurt, and it’s going to hurt more and more and more unless you reverse your policy.” If you launch everything at once, and fail to force a change, the next choice is between sending arms and troops, or saying, “We can’t change the situation;” which would mean failing completely.

Our initial Russia sanctions aimed directly at the circle around the Kremlin leadership; the bank where many of Putin’s closest associates held their assets and the businesses to which they were most closely tied. As the occupation expanded, we grew the sanctions to include the strategic industries that supported the effort and reached more deeply into the Russian economy. While doing this we had to carefully monitor any Russian retaliation against Europe that might weaken European resolve and make it more difficult for the Europeans to stick with the sanctions program.

We did not want to impose sanctions that were perceived by the Russian people as aimed at average citizens. That would have been counterproductive at a moment when the leadership in Russia was making its Ukraine effort and the response a matter of nationalist fervor. Our goal was to hold policy-makers responsible and drive a diplomatic process to resolve the conflict.

We could have shut down Russian inter-city transportation through sanctions on the rail system, but that would have been crushing to the Russian people without significantly reducing the provision of material or support in Ukraine. We chose not to do that and instead went hard against the arms

suppliers, energy producers, and transmission lines, and put maximum pressure directly on the regime.

In the case of Iran, the sanctions worked—they brought the sovereign to the table and an agreement was reached that all parties at the time thought was an important step forward. A difficult decision was made to roll back sanctions despite the fact that Iran continued to pursue many malign policies. We had to distinguish the sanctions that were designed to get Iran to roll back its nuclear program from other sanctions related to terrorism, human rights violations, and regional destabilization. Otherwise, there would be no leverage to reach an agreement. In the end, because Iran was still engaging in regional destabilization and supporting terrorism, sanctions related to those activities remained in place, while the nuclear sanctions were removed. I think we threaded that needle quite well and the sanctions worked. With a change in policy under the Trump administration, we also saw that after the United States reimposed the nuclear sanctions, Iran restarted its nuclear program.

In Russia the situation remains unresolved and claiming success or declaring failure at this point would be premature. In terms of freezing the conflict, the sanctions succeeded. Before the sanctions, there was no evidence that Russia would stop where it was, and then it did stop. There was no peace process, but then the Minsk Accords were reached which provide a diplomatic framework for further progress, and the potential to resolve at least some of the issues diplomatically.

Throughout the Trump Administration there was ongoing ambiguity with regards to Russia, and Congress forced the Administration to remain tough. It is important that the sanctions remain in place while the Ukraine issues continue to be negotiated until they are ultimately resolved. We are not at the end of this story yet, and there may be a future moment when the sanctions can be brought more effectively to bear, to drive progress toward the diplomatic frame.

**You acknowledge that broadly applied sanctions could have a counterproductive effect on populations in countries where we don't want to alienate the population, and that smart sanctions allow us to be more precise and targeted. But what is the strategic impact of targeted sanctions? Russia and also Iran, North Korea, and Venezuela have been financially isolated for years, and yet sanctions do not seem to have been able to change their behavior at a strategic level. How do you explain that?**

Sanctions are not always effective if a regime is willing to endure almost unlimited hardship on its people. In an authoritarian state, the only thing that may ultimately drive leaders to change their policy is if they fear for the survival of their regime should the internal pressure become unbearable. In such cases, leaders may be willing to absorb a great deal of pressure unless the impact causes those who maintain the regime to demand change.

In the case of North Korea, there was a broad sense that the regime would endure a lot of pain imposed on the North Korean people. The only circle whose pain the leadership seems to care about is the chain of command controlling the military and the government, and they can afford to keep that circle sufficiently satisfied even with broad economic damage to the country. Just causing pain broadly in the economy of North Korea has not seemed to lead to a change of policy.

The principal economic lifeline for North Korea is China, and it is almost impossible to put maximum pressure on North Korea without China's involvement and cooperation. In terms of what we knew about the weapons program in North Korea over the eight years of the Obama Administration, it was not until the last year that it became clear they were starting to make meaningful progress in their nuclear capabilities.

When we realized the advanced stage of the North Korean nuclear program, we quickly went to the UN and ratcheted up pressure on China

to cooperate by putting more pressure on North Korea. The diplomatic approach caused China to ratchet up pressure on the North Korea-China border, and to support UN sanctions—less than full cooperation but more than we had seen in the past. We had partially overlapping strategic interests with China; it was not really in China's interest for North Korea to be a nuclear power. On the other hand, China's greater strategic fear is a unified Korean peninsula where the United States is effectively across the river from them as part of the security structure of a unified Korea.

China has a definite bias towards international versus unilateral sanctions. The Chinese do not recognize the legitimacy of unilateral sanctions, so the UN provides a mechanism to get the Chinese to be more willing to apply bilateral pressure. The United States can impose unilateral sanctions against North Korea, but with little impact because there is virtually no trade between the United States and North Korea and the dollar is not a significant part of the North Korean economic system. If China does not limit the ability of Chinese companies or cutouts of Chinese companies to facilitate trade on the border, we do not have that many points of leverage.

Over the last four years, U.S. policy with regard to North Korea has been quite confused, as has our policy with regard to China. As a result, there has been little progress in slowing North Korea's push to implement a nuclear program.

With China it will always be necessary to prioritize different concerns; you cannot expect the two major powers of the world to respond equally to every concern. In 2016 we were moving North Korea much higher on the list than it had been previously. Earlier, in 2012, 2013, 2014, when the timeline on the North Korean nuclear program seemed considerably longer, we wanted to bring China into the Iran negotiations. We wanted to bring China into the Paris Climate negotiations. We had a huge set of bilateral

issues including the exchange rate of the dollar and the RMB that was being used to undermine U.S. economic interests, and a host of other bilateral and transnational issues.

In 2016-2017 North Korea jumped to the top of the list because of the acceleration in North Korea's nuclear program. During the transition in 2016-2017, this point was made very clear to the incoming administration. If making progress on North Korea had been prioritized over a trade war with China, the Trump administration might have been able to get more cooperation from China, putting the kind of pressure on North Korea that could be more effective. Conversely, starting up an odd bilateral negotiation between the President of the United States and a discredited leader of North Korea left the whole world wondering what the United States was trying to accomplish.

Venezuela is a different case. Venezuela is very small, very cut off economy and my view on Venezuela has changed some. When I was at Treasury, I was persuaded that we did not have enough direct access to Venezuela's economy to have a huge impact. I credit the Trump Administration for using a sanctions tool in a creative way; while U.S. trade is a small percentage of the total trade with Venezuela, it represented a very high percentage of their access to hard currency. A lot of their trade with Russia didn't give them the ability to buy goods and services anywhere else in the world. They weren't getting a liquid currency; they weren't even necessarily getting cash. They could have been getting credit against other purchases.

Where I will fault the Trump Administration here is it did not have a diplomatic strategy to drive for a meaningful change in policy. Even if you find a fulcrum and have the ability to use a lever, that lever still requires a broader strategy for sanctions to be effective, and I did not see that follow through in the case of Venezuela.

**The Trump Administration has used sanctions and designations very publicly. What is your assessment of the risk of the overuse of these tools?**

I have given this problem a lot of thought. I think the combination of an aggressive posture on trade and sanctions over the last four years raises some real warning signals. It is not a great thing for the United States to be seen as a bully around the world; it is not a great thing to be seen as unpredictable and often confusing national security and economic interests.

There are legitimate concerns about the strategic risks of China's technology becoming part of the backbone of communications of the United States and other global allies. I am not an expert in the technology and cannot opine on whether it is a risk that can be mitigated or not, but I will stipulate that there is a legitimate risk that warrants serious consideration.

What does not make any sense is to claim that something is a serious national security risk but then to enter into a trade negotiation where you say, "If you buy more from us, we will relax the restrictions on that technology." Those are different issues. The Treasury Department spent a great deal of time defending our use of the CFIUS statute (Committee on Foreign Investment in the United States, which can block foreign investments in U.S. firms or operations) when other countries—particularly China, just because most of the cases involved Chinese investment—would say it was not really a national security tool, it was really a trade protection tool to keep foreign interests out of the U.S. economy. I actually do not believe that is an accurate characterization of the way CFIUS was used, but that is how it was perceived.

If you look at the way the ZTE and Huawei issues were handled, the economic and security issues have been confused. It is very dangerous when your own description of what you are doing with a national security tool can be undermined by your actions and words in economic and trade negotiations. In general, there has been much

discussion and some international resistance around U.S. sanctions with extraterritorial reach, and it is crucial to have credibility. I could look foreign counterparts in the eye and say we only use national security tools to protect national security interests, and we only prosecute actions that violate the law in the United States. We have a right to protect our own national security and enforce our own laws, and if you break the law in the United States, we have the right to take action.

If you are settling transactions in dollars, secondary sanctions provide an opportunity to take action against activities that took place outside of the United States but were transacted in U.S. dollars. But again, credibility is very important. It matters that the underlying basis for what you are doing is defensible and it helps if you have at least convinced other countries of the merits of what you are trying to accomplish. Other countries never like it when you take legal action against their banks; but if you are able to say, "Your banks violated our laws not once but twice and then a third time; this company knowingly violated U.S. law," there is moral power behind the use of this economic tool.

What are the consequences of overuse of economic tools either in trade or in sanctions? I do not think they are immediate. This is a subtle point in a world where we do things in nanoseconds; talking about consequences that develop over decades seems quaint. But I think we have to realize that the post-World War II economic order that puts the dollar at the center of global commerce and gives us the extraordinary reach that we have, is not some divinely ordained order.

Other currencies have seen their role as the world's reserve currency change. The British pound sterling had that primacy for a time, and then it did not. While there are signs that some countries are trying to re-configure their "plumbing" so as not to be so dependent on the dollar, and not to be as susceptible to U.S. actions beyond their control, there is not an

immediate risk that the role of the dollar is in jeopardy. But you accelerate the rate at which that change may occur if the United States is seen as taking advantage of its special position without justification.

Though we might be seeing some migration from the dollar, I do not think it will happen quickly. But if the plumbing is tested and works, that process can be accelerated. Countries are diversifying their baskets of reserves to mitigate over-exposure to any one currency, and we are seeing the development of settlement systems that facilitate trade without coming to the United States either physically or virtually. These are nascent trends, but the plumbing is being built. It is not in the interest of the United States to encourage other countries to act in a way that accelerates this trend.

It is inevitable that other currencies will gain strength over time. I cannot tell you today whether it will be the Euro or the RMB or the Yen—obviously, none are in a position to overtake the dollar right now. It could be some global basket of currencies created as an alternative to virtual currency. It would be a mistake to assume that because, since the end of World War II there has been one reality, that reality will endure forever. But it is also a mistake to think that we are a week, or a month, or even a year away from that change happening. This is not likely to happen in single-digit years, but if you were to tell me that the pattern of our policies accelerated this from a 50- to a 20-year or a 30-year process, I would say that was very bad for our national interest. That long term perspective is not the way policy is usually debated, but it should be taken into account.

**Can you talk about the impact that secondary sanctions (which target third party actors doing business with a sanctioned person or entity) and tariffs have had on our alliance and partner relationships?**

Secondary sanctions are a particularly challenging tool because countries have a hard enough time

accepting that you are taking actions against their businesses operating in the United States. When those businesses are operating outside of the United States but transacting in dollars, or at some point touching the United States indirectly, that is when they start to see it as extraterritorial reach. That is when they start to say, “You are not just making laws for yourselves, you are making laws for the whole world.” Yet we must reserve the right to do that to act against the most malign forces.

But it is an option we should use sparingly. We should not jump to it, and we should not do it without consulting with other countries. I do not advocate unilaterally lowering our ability to defend ourselves and act in our own interests, but the more we deal with the global community as potential allies the better off we are. I would reserve secondary sanctions for the most serious circumstances.

Trade falls into a different category. We have trade agreements. Every administration for the last 50 years has taken trade actions when we feel other countries have violated them. We are in a peculiar moment right now because the United States has actually made it impossible for the adjudicatory body that resolves global trade disputes to work effectively by refusing to fill open seats for judges.

We have every right to defend ourselves against dumping and unfair practices, but should be very careful to make certain that our actions are consistent with principle and international agreements, and we ought also to be mindful of the fact that things like tariffs are taxes on American businesses and individuals. Their direct effect is not on the countries that we’re sanctioning, but on the United States. Our objective in a trade negotiation should be fair trade. It is not just trade flows, nor is it a question of eliminating a balance of payments deficit. We have confused a lot of issues over the last few years; it is not an accident that the result has not been more, but fewer manufacturing jobs in some key industries.



**Are you at all concerned by Russia and China's recently announced intention to denominate trade in currencies other than the dollar? Should the United States be worried that the rest of the world will eventually abandon the dollar?"**

There are likely to be more and more experiments with non-dollar denominated transactions, more non-dollar denominated reserves. But as I said, the dollar is not in danger of being displaced anytime soon. Consider for example the special purpose vehicle that the Europeans were trying to put together to get around our reimposition of sanctions on Iran: it did not succeed because ultimately all the parties decided they did not want to risk a punitive response from our government that would limit access to U.S. markets. That would burden their economies and hurt their businesses.

Russia's currency is not a serious challenger right now; it has had a pretty tempestuous history over the last 20 years. The RMB is becoming more widely accepted, but it is still not ready to be the world's reserve currency, nor does China even want it to be because it would expose China to a level of transparency China is not comfortable with. The incremental strengthening of the Euro in the last few months is a reminder that if Europe gets back on its feet economically and has a currency that the world is comfortable with as a close-to-zero risk for reserves, it will grow.

I remember when everyone had it wrong about Japan taking over the world in the 1970s. And I remember expectations that did not come to pass about Europe. At the same time, we should be mindful that the situation can change. We do not know what the next decades might bring; we do not know which country or region is going to break through in a way that becomes more of a threat. What seems most likely is a gradual diversification rather than the replacement of the dollar as a global reserve currency. And as the world learned when the British pound quickly fell from its dominant position, change occurs quickly when it does.

Candidly, one of the things that underlies the U.S. position beyond the strength of our economy and the dollar is the fundamental stability of our system. Why is it not risky to hold dollars? Because there is a sense that the band of economic exposure is tolerable: there is no fear that the United States will refuse to repay, and until very recently, no fear that our political system would be unstable. We may not be as strong in that regard as we were five years ago—the world watched the last four years and worries about the future in a way that they have not before. That comes into play too. That may not be economic, but it is still part of the calculus.

Coming out of the Great Recession, we showed the world that even though the financial crisis began in the United States, we emerged stronger than everyone else because we used our policy tools effectively and we were growing when others were not. Our system worked. Coming out of the current crisis, I hope we can prove that again, and with a new Administration there is a moment to show that the U.S. can be relied on for its traditional stability. I hope we are in a position to show that the United States has the resilience to warrant the confidence that it has enjoyed.

When there is a search for a safe haven today, there is still no competition to the United States. Even though this is all speculation about what lies over the horizon, these are the considerations you have to think about when you are protecting a strategic tool.

**Does the fact that China currently holds over a trillion dollars in U.S. reserves make the United States vulnerable to China?**

It would be an act of colossal self-destruction for China to take its massive holdings of dollars and cause them to dramatically lose value. And it would take a very large reduction in holdings to undermine the dollar.

We had a natural experiment of what would happen if China, in a rather quick period of time,

divested substantial amounts of U.S. securities, when China was defending the RMB. Their reserves dropped from roughly 4 to 3 trillion, the bulk of the drawdown being through either selling or not rolling over U.S. securities. We did not see any particular movement in the liquidity of or value of U.S. bonds, so it was kind of proof that the depth and liquidity of the market for U.S. treasuries could withstand a pretty big event.

There were other cases when we worried about large holders of U.S. bonds taking a similar action as a kind of foreign policy matter. It was by analogy to the experience that we saw with China that we could fairly comfortably say it would not be very effective and it would be very self-destructive to intentionally drive down the value of their U.S. reserves. Therefore, it is not very likely. That at least was what the world looked like when I was doing this day-to-day.

The event that I would worry about is concerted action by adversarial, allied states that wanted to undermine the United States and were willing to sacrifice a good deal of the value of their U.S. assets. Though it is a strained example, you could imagine several countries dumping their U.S. treasuries at the same time; that kind of pressure on markets could cause things to break. That is not a very likely scenario; the interests of our adversaries are very disparate. It is not as though we face an obvious coalition of like-minded adversaries who have the willingness or ability to do that. I can come up with a theoretical scenario of the U.S. being vulnerable in that way, but in the real world it is very unlikely... at least in the current environment.

**What security risks would you see if a blockchain digital currency were to become accepted in the future that is something other than in the U.S. dollar?**

There are many significant issues with cyber currencies, and they are not likely any time soon to be a

threat to the dollar as a reserve currency. During my time at Treasury, this was a new issue; we were trying to figure out how to deal with it without stifling technology. At that time, it was not even clear what cyber currency is. Is it money? Is it an investment? Should it be treated as one or the other?

We came up with an approach focused on managing the risk that anonymous transactions could easily escape the routine review that gives us the ability to detect malign activity—either criminal or terrorist kinds of activity—and we had to make sure to have sufficient visibility into something that by its basic nature was designed to be almost invisible. There are ways to deal with it, but there is a serious risk.

The idea of a private blockchain currency replacing the global world currencies does not seem very likely. I could be wrong, but I just think the risk of value loss in those currencies is great. They do not have the backing of a sovereign. A joint cyber currency launched by a group of sovereign nations might have some prospect of success; that idea goes back 75 years to when the IMF was created. John Maynard Keynes had a dream to replace the reserves at the IMF so they would not consist of dollars, pounds, and rubles, but rather something he called “Bancor.” It would have been a kind of a global currency. The IMF system of special drawing rights (SDRs) emerged as a solution to the need for a common denominator reserve for all nations, but SDRs are not a tradable currency. SDRs can support economies, but they are not used broadly in commerce.

There have been suggestions, particularly from China, to think about using SDRs at the IMF as a way to create a medium for international trade, if not an actual currency. We are a long way from there. But if you ask me what a competitor to the dollar might someday be, it would be something like that.

**Former Chairman of the Joint Chiefs of Staff Admiral Mike Mullen testified once that the national debt was a major national security threat. Since that time, under both Republican and Democratic administrations, the U.S. national debt has more than doubled and we are now running trillion-dollar deficits. At what point does the United States exhaust its privilege of being the reserve currency holder?”**

One should always think from the perspective of where the global economy is at the moment and what likely risks are on the horizon. At the time Admiral Mullen was speaking, we were not in the middle of a pandemic when the economy of the United States and much of the world had been shut down. At a moment like this—and this is a view shared by most economists—the far larger risk is an inadequate response.

Today I feel confident that we ought to be spending the large amounts we are. Candidly, we should be spending more because there is going to be a situation that feels like a recession to many, many millions of people for some time to come, and it is not the right time to worry about adding to our stock of debt. If our debt is at 100 or 103 percent of GDP when this ends, it will not make much of a difference if we are growing at a decent rate. The real question will be do we have the economy back on a steady growth path and have we returned to full employment. I think the hard question comes when we are back on our feet.

There are voices urging us to add to the deficit going forward to invest in the things that we need to rebuild our country: human capital and physical infrastructure. The argument is we are in a position to borrow as much as we need for as long as we need to. I think after the crisis is behind us, this would not be a responsible path.

Coming out of this crisis we need to find our bearing again and ask, “What is a sustainable fiscal policy?” Sustainable is not an absolute. Sustainable

at 4 percent interest is different than sustainable at zero percent interest. You can have a bigger debt stock with very low interest rates and have current income provide you the ability to service it. But it is a mistake to think that interest rates are going to be near zero forever, so while we have near-zero interest rates, we should deal with the emergency. We should invest in making sure that we emerge with a healthy economy, and after we ought to be in a place where we at a minimum pay for what we are doing so we do not create a bigger problem.

We also need to deal with the funding of entitlement programs. There are different ways to do it: you can do it by raising payroll taxes, you can do it by cutting benefits, you can do it by some combination of the two. But we have to make sure Social Security and Medicare are fully funded. If we pay as we go for new things after the crisis, and fix our entitlement programs, that would be a positive step.

Ultimately, to deal with deficits requires a bipartisan approach. That is what we saw in the George H.W. Bush Administration and the Andrews Air Force Base negotiations. It is what we saw in the second term of the Clinton Administration with the balanced budget agreement. I can give you examples of one party doing it. In 1993, the Clinton economic program was done on a party-line vote. But that is the exception to the rule. Mostly these things have to be done in a way that has broad buy-in. Until we heal some of the political fissures and divisions, that will be hard to do.

**More and more governments are focusing on enforcing anti-money laundering efforts and limiting the role of secrecy jurisdictions, as a way to identify and prevent bad actors from hiding illicit money. Do you see this trend continuing with greater emphasis as we move into the future?**

I took quite a number of steps in this regard, using a number of tools to be able to have transparency into what is called “beneficial ownership.” The way to

conduct business in secrecy, even within advanced countries, is often to use a shell entity so it is not clear who the real owner and user is. Real estate is frequently used for that purpose. We took administrative measures to make it much harder in the jurisdictions where we thought it was happening the most. At the OECD or the G20 where economic leaders, both at the head of state level and the ministerial level, discuss these issues, hiding beneficial ownership is a big deal. It is a way of avoiding tax laws as well as a way of evading detection of malign activities, and I do think there will be growing interest in it.

It's hard to do this unilaterally; water runs downstream and if you have a jurisdiction that will allow that water to pool up, the water goes there. It takes a global effort, not just a national effort, which requires an approach to diplomacy—particularly economic and financial diplomacy—that builds the confidence and the ties to do hard things together.

**How would you suggest we improve our strategic planning processes to ensure we bring all the elements of national power to addressing our interests?**

One of the things that I always appreciated was the way the Joint Staff and Defense Department civilian leaders looked at the strategic trade-offs in the use of sanctions in a way that was more helpful than many of the diplomatic representatives who sometimes focused more on the need for immediate action.

The highly surgical approach to Russia sanctions was the result of a pretty intense strategic discussion in the situation room that led to a highly engineered approach. That is the right way to make decisions on using powerful economic tools that are the equivalent of weapons. To think of them as just economic actions is a mistake. One ought to think about them as a strategic matter—even if we do not equate the use of economic tools with putting lives at risk in military conflict. Think in terms of a finite amount of national leverage that can be used in ways

that either diminish it or enhance it; you have to be careful to use that leverage to accomplish goals in the right way in order to maintain those tools for future generations. If you start to use these powerful economic tools as though they are free, they will diminish in terms of their effectiveness and ultimately, their availability.

**We talk a lot about how the great power competition with China is predominantly geoeconomic. With so many deep economic ties to China, how can we leverage our economic tools to enhance our competition against the more malign aspects of China's aspirations without causing damage to the productive aspects of our economies?"**

The reality is that the United States and China are the two dominant forces in the world today, economically and in terms of geopolitical capability. China does a lot of things, and will continue to do a lot of things, that are not to our liking; some of them affect our national interests more directly, some of them affect our values more directly. The idea that we are on a course of inevitable conflict is frightening because that means that economic and political discord could eventually lead to military conflict. It also denies the reality that our economies are interconnected at this point. Unraveling them may be impossible without doing substantial harm.

So, the question is, "How do you engage to make a difference?" First, as you engage, you actually have to spend time developing relationships and understanding each other so that you are in a position to know how to press your case to get results. Secondly, you have to prioritize. You can list 100 things that you want China to do differently, but there have to be some smaller number of changes which could improve our relationship. There are also those issues where we have common interests that we ought to work together on even while disagreeing on others. And then there is that space where you simply disagree.

It is important not to exaggerate and not to demonize. There is some danger that the relationship is getting to the place where that is happening on both sides. That increases the chance of conflict, which would not be in the interest of either the United States or China, or the world beyond. But at the same time, we should not step back and say we will look the other way when we object to what China is doing militarily or economically or in terms of human rights that damages our interests.

I made 13 trips to China as Treasury Secretary, more than to any other country, and we were able to make real progress on a lot of important issues. When I left the Treasury Department, it was the first time in a generation that people were not saying that the exchange rate was being used unfairly, and we were able to get agreements to open some critical markets and to have an understanding on some key areas of intellectual property. We did not solve all the problems; there were many problems remaining—but we made progress.

That approach is not in favor nowadays, because it is seen as not being tough enough. But for the decades, the idea was not that China was going to become a Jeffersonian democracy. The Communist Party in China is a powerful institution. This was true when Nixon went to China, and it is true today, but that does not mean that they have to offend as many of our interests as they do today. We have to be able to talk to them about hard things.

With the approach taken by the Trump administration, we were unable to talk to China about a lot of hard things. They viewed the language coming from our government as being nothing short of racist; they viewed it as being inconsistent with the position in the world that China has come to occupy. China is having a moment of its own, searching for its own kind of nationalist direction. It is a tricky and dangerous moment. I would never say we should ignore those things that require our attention, but I do think we have to find a way to engage

more effectively with China than we did for the past four years. And we need to reengage with our allies so our approach to China is not a head on conflict between the United States and China on every issue. There are many issues on which we can join and lead many nations of the world with which China wishes to maintain good relations.

### **What kind of black swan or gray rhino events could accelerate migration away from the U.S. dollar as the world's reserve currency?**

I have never been in the business of predicting apocalypses, and I will not start now. I have tried to describe the kinds of activities that merit caution. Over the past four years we saw a trade war where we are seen as the bully; withdrawal from the Paris climate agreement; and unilateral sanctions without allies where we appear to be acting highly willfully or even arbitrarily. This creates a risk that other countries will ask whether they can depend on the United States as a stable ally and foundation for global order. I do not know the tipping point. And I think the Biden Administration will make efforts quickly to restore confidence in the United States.

The way we withdrew from the Iran deal, the JCPOA, has left real damage. Last year the United States was at the UN seeking the implementation of a provision that I helped design: the snapback. I was very proud of the snapback which provided that if Iran breaks the deal, we the United States can guarantee that international sanctions will go back into place. It would take a vote of the UN Security Council to stop that, and we have a veto, so we could stop the efforts to block it. When I defended the JCPOA in testimony half a dozen times before Congress I could say, “this works!”

It was the farthest thing from anyone's imagination that the thing that would cause the snapback would be the United States withdrawing from the JCPOA, while Iran remained in compliance; with the United States reimposing sanctions even though

Iran did not violate the terms of the agreement; and Iran resuming its nuclear program in response. That does not build confidence in the United States. It is not the way a great power should behave. We create a mechanism to stop a country from doing bad things and then we take an action that undoes it. Many of us hoped Iran would not violate the agreement until they knew whether or not there was some chance of the JCPOA being reinstated, and now with a new U.S. Administration I hope they come back into compliance to give a new round of talks the chance of reaching a new agreement.

The reason I tell this story is I do not know how many times you can do that before countries say, “We don’t trust you anymore!” We are a lot more successful when we are at a negotiating table with allies, working on what comes next than when we are throwing rhetorical rocks at every adversary. We need diplomatic engagement. It is hard enough when you are standing on solid ground in terms of your positions; but when you take actions that destabilize the status quo that you were trying to defend, the rest of the world does not see you as occupying the moral high ground. Abandoning our claim to the moral high ground created real danger, and that danger needs to be reversed.