The Buck Stops Here: The Case For Stopping Currency Manipulation

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The Buck Stops Here: The Case for Stopping Currency Manipulation

Open competition in free markets has brought our civilization the highest standard of living the world has ever known. But competition requires that everyone play by the rules honestly, without cheating. And when cheating happens, there have to be consequences. That’s why my partner and I are affirming that: The United States Federal Government should substantially reform its policies toward the People’s Republic of China

OBSERVATION 1. DEFINITIONS.

Substantial:

“large in amount, size, or number” (*Merriam Webster Online Dict. 2016* <http://www.merriam-webster.com/dictionary/substantial)>

Reform:

“to improve (someone or something) by removing or correcting faults, problems, etc.” (*Merriam Webster Online Dict. 2016* [*http://www.merriam-webster.com/dictionary/reform*](http://www.merriam-webster.com/dictionary/reform)*)*

Policy:

“a high-level overall plan embracing the general goals and acceptable procedures especially of a governmental body” (*Merriam Webster Online Dict. 2016* [*http://www.merriam-webster.com/dictionary/policy)*](http://www.merriam-webster.com/dictionary/policy))

Currency Manipulation:

“Currency manipulation occurs when a government buys or sells foreign currency to push the exchange rate of its currency away from its equilibrium value or to prevent the exchange rate from moving toward its equilibrium value.” *(Joseph E. Gagnon 2012 senior fellow at Peterson Institute for International Economics; formerly visiting associate director, Division of Monetary Affairs at the US Federal Reserve Board; served at the US Federal Reserve Board as associate director, Division of International Finance and senior economist. July 2012 Combating Widespread Currency Manipulation* [*https://www.piie.com/publications/pb/pb12-19.pdf)*](https://www.piie.com/publications/pb/pb12-19.pdf))

OBSERVATION 2. INHERENCY, or the structure of the Status Quo. We offer 2 key FACTS

FACT 1. Currency manipulation. China is the world’s leading currency manipulator

Dr. Robert E. Scott 2016 (PhD economics from Univ of Calif.) Currency manipulation and manufacturing job loss 21 July 2016 <http://www.epi.org/publication/why-negotiating-great-trade-deals-is-not-the-answer/>

Over the past two decades, currency manipulation by about 20 countries, led by China, has inflated U.S. trade deficits, which (in combination with the lingering effects of the Great Recession) is largely responsible for the loss of more than five million U.S. manufacturing jobs.

FACT 2. No effective response. The Status Quo has no mechanism that can respond effectively to currency manipulation

Dr. C. Fred Bergsten 2015. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) The Truth About Currency Manipulation 18 Jan 2015 FOREIGN AFFAIRS <https://www.foreignaffairs.com/articles/united-states/2015-01-18/truth-about-currency-manipulation>

The international economic system has been totally ineffective at responding to such manipulation. The International Monetary Fund (IMF) has clear rules against competitive devaluations. But it has no enforcement mechanism and its decision-making process is highly politicized and easy for the manipulators to block. The World Trade Organization (WTO) can levy tough sanctions, but its rules on exchange rates are vague and have never been tested. Further, despite earlier congressional efforts, U.S. law has proved equally impotent. No administration in the past 30 years has pressed the issue effectively.

OBSERVATION 3. The HARM. Damage to the US economy. We see this in 3 sub-points

1. The Link: Currency manipulation is economic manipulation

Bill Owens 2015 (former US congressman from NY) Time to take action against Chinese currency manipulation 20 Aug 2015 <http://thehill.com/blogs/pundits-blog/finance/251534-time-to-take-action-against-chinese-currency-manipulation>

The first step in understanding currency manipulation is to recognize that in Western economies, the government does not control the exchange rate; rather, it is set by the marketplace. In China and many other economies, the government sets the exchange rate. This creates fertile ground for the unfair manipulation of exchange rates, and in the case of the Chinese, it has gone on for at least 20 or 30 years. As an aside, the Trans-Pacific Partnership does not, in my view, address currency manipulation in any meaningful fashion. Chinese exports have grown to slightly over $2 trillion dollars, including $340 billion to the U.S. in recent years. The impact of a 4.4 percent reduction in exchange rates creates an $88 billion dollar reduction in selling price, which is quite an incentive to the Chinese as it dramatically increases profits in China.

1. Impact 1: Millions of US jobs lost

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/>

For example, the rise in the U.S. trade deficit with China alone between 2001 and 2011 eliminated 2.7 million U.S. jobs, over 2.1 million (76.9 percent) of which were in manufacturing (Scott 2012). Although half a million manufacturing jobs have been added since 2009, a full manufacturing comeback has not happened in the recovery from the Great Recession and never happened in the recovery following the 2001 recession. Full recovery requires greatly increasing exports relative to imports, because while exports support domestic job creation, imports (and growing trade deficits) eliminate domestic jobs. Although the overall U.S. trade deficit declined slightly in 2012, the trade deficit in manufactured products increased by $10.2 billion (USITC 2013). This growing manufacturing trade deficit is a threat to manufacturing employment and the overall recovery. Currency manipulation by China and other countries, such as Japan and Singapore, is the largest single cause of U.S. trade deficits. China is the most important competitor for U.S. exporters in markets around the world. It is no coincidence that China is also the world’s foremost currency manipulator.

1. Impact 2: Lower wages

Dr. Robert E. Scott 2016 (PhD economics from Univ of Calif.) Currency manipulation and manufacturing job loss 21 July 2016 <http://www.epi.org/publication/why-negotiating-great-trade-deals-is-not-the-answer/>

Currency manipulation acts like an artificial subsidy to the host country’s exports (making their goods artificially less expensive) and as a tax on all U.S. exports, which undercuts the competitiveness of U.S. products, especially manufactured goods (which make up 70 percent of all U.S. goods exports [USITC 2016]). As a result, the growth of trade deficits since the late 1990s has eliminated millions of U.S. manufacturing jobs. Manufacturing provides good jobs with excellent benefits, especially for workers without a college degree. As unemployed manufacturing workers seek employment elsewhere, they are competing for the remaining jobs available to U.S. workers without a college degree, bringing down wages for all such workers.

OBSERVATION 3. We offer the following PLAN, to be voted by Congress and implemented by the President, the Treasury Department, and the Federal Reserve

1. The Secretary of the Treasury officially labels China as a currency manipulator under US Code Title 22 Section 5304.

2. Congress imposes sliding tariffs on imports from China sufficient to offset the artificially reduced value of the foreign currency. Tariffs fluctuate with the value of the currency and are adjusted every 6 months.  
3. The Treasury Department establishes and announces a policy of countervailing currency intervention. The US federal government will buy Chinese currency in the same amount being manipulated by the Chinese government to achieve a 100% offset. To explain it simply: every time they intervene in the currency markets, we intervene in the opposite direction by the same amount to cancel out the market effects of whatever they did.

4. Funding from general federal revenues   
3. Enforcement through the Justice Department and Immigration & Customs Enforcement. Penalties for violation are the same as for similar violations of existing laws.  
4. Plan takes effect 3 days after an Affirmative ballot.  
5. All Affirmative speeches may clarify.

OBSERVATION 4. The ADVANTAGES

ADVANTAGE 1. We solve currency manipulation. The mandates of our plan will stop the harms of currency manipulation

Dr. C. Fred Bergsten 2015. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) The Truth About Currency Manipulation 18 Jan 2015 FOREIGN AFFAIRS <https://www.foreignaffairs.com/articles/united-states/2015-01-18/truth-about-currency-manipulation>

Three measures could be adopted. First, the administration should start obeying current law by formally designating countries that are currency manipulators. Both the former and current administrations have refused to do so, even when the practice was obvious, as when China was intervening at a rate of $2 billion per day a few years ago and running an external surplus equal to ten percent of its whole economy. This failure totally undermined U.S. credibility on the issue with the manipulators themselves, with potential U.S. allies on the problem including the IMF, and with Congress. Second, the administration should authorize the imposition of countervailing duties on imports from countries that manipulate their currencies, whether or not they are members of trade agreements with the United States. Such manipulation is as much an export subsidy as any other against which the United States would normally countervail, and failure to do so is an absurd anomaly. The House and Senate have separately passed bills calling for this change, but it could almost certainly be carried out by executive action. Countries hit by the new approach might take the United States to the WTO, but the United States should be quite willing to fight that legal battle, which would take several years to play out. Third, Treasury should announce that it is prepared to conduct “countervailing currency intervention” against manipulators to offset their distortions of the markets. If China buys one billion dollars to keep the dollar artificially strong and its currency artificially weak, for example, the United States would buy one billion dollars worth of Chinese renminbi to offset the exchange-rate impact. The principle is equivalent to the imposition of countervailing duties against subsidized exports, but this method would be far superior because it would affect all trade rather than only imports of individual products. A few implementations of this policy, or perhaps even just its announcement, should be enough to deter future currency manipulation. There would be no budget cost and the policy would almost certainly make money for the United States. The Senate authorized this approach in a currency bill in 2011 but it, too, could be implemented under current law. There are no international rules against it, so no counter-retaliation could be justified.

ADVANTAGE 2. Economic benefit. The US would receive substantial economic growth and new jobs from stopping currency manipulation

Dr. C. Fred Bergsten 2014. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) Jan 2014 Addressing Currency Manipulation Through Trade Agreements (brackets added) <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDwQFjAD&url=https%3A%2F%2Fpiie.com%2Fpublications%2Fpb%2Fpb14-2.pdf&ei=X0l0VZPXCcauU_DVgcgB&usg=AFQjCNHKF6Bx1bMQvQRgcES4LBJ-suN7og&sig2=3KfVObSLwWRzvT5-sZc6yA&bvm=bv.95039771,d.bGg>

The economic payoff from successfully resolving the currency manipulation issue would be substantial. The aggrieved countries, most notably the United States but also the euro area, would see their external deficits reduced considerably with large numbers of new jobs created over several years, with no costs to their budgets, as the new disciplines were phased in and extended to the full range of manipulating countries. The erstwhile manipulators would of course experience corresponding gradual declines in their external surpluses and would have to steadily expand domestic demand to offset the adverse effects on their growth rates.

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2A EVIDENCE: CURRENCY MANIPULATION

OPENING QUOTES

It’s time to end currency manipulation – to rebuild the US economy

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/>

It is time for the United States to take concrete steps to end currency manipulation. Decades of diplomatic arm twisting and passive acquiescence to wanton abuse of the rules of the International Monetary Fund and World Trade Organization have failed to reverse a growing tide of currency manipulation. Ending currency manipulation is the best available tool for rebalancing global demand, reflating the U.S. economy, and ending the jobless recovery.

DEFINITIONS & BACKGROUND

22 US Code Section 5304

<https://www.law.cornell.edu/uscode/text/22/5304>

22 U.S. Code § 5304 - International negotiations on exchange rate and economic policies (a) Multilateral negotiations   
The President shall seek to confer and negotiate with other countries—  
(1) to achieve—  
(A) better coordination of macroeconomic policies of the major industrialized nations; and  
(B) more appropriate and sustainable levels of trade and current account balances, and exchange rates of the dollar and other currencies consistent with such balances; and  
(2) to develop a program for improving existing mechanisms for coordination and improving the functioning of the exchange rate system to provide for long-term exchange rate stability consistent with more appropriate and sustainable current account balances.  
(b) Bilateral negotiations  
The Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. If the Secretary considers that such manipulation is occurring with respect to countries that (1) have material global current account surpluses; and (2) have significant bilateral trade surpluses with the United States, the Secretary of the Treasury shall take action to initiate negotiations with such foreign countries on an expedited basis, in the International Monetary Fund or bilaterally, for the purpose of ensuring that such countries regularly and promptly adjust the rate of exchange between their currencies and the United States dollar to permit effective balance of payments adjustments and to eliminate the unfair advantage. The Secretary shall not be required to initiate negotiations in cases where such negotiations would have a serious detrimental impact on vital national economic and security interests; in such cases, the Secretary shall inform the chairman and the ranking minority member of the Committee on Banking, Housing, and Urban Affairs of the Senate and of the Committee on Banking, Finance and Urban Affairs of the House of Representatives of his determination.

How foreign government currency manipulation works

Dr. Robert E. Scott 2015 (PhD economics from Univ of Calif.) Currency Manipulation and the 896,600 U.S. Jobs Lost Due to the U.S.-Japan Trade Deficit 4 Feb 2015 <http://www.epi.org/publication/currency-manipulation-and-the-896600-u-s-jobs-lost-due-to-the-u-s-japan-trade-deficit/#conclusion>

The biggest tool of currency manipulation is the purchase of assets denominated in the currencies of other countries, which is known as currency intervention. Purchases of foreign assets by central banks and other government agencies in Japan, China, and other countries directly increase the demand for foreign currencies, especially the U.S. dollar. This increases the value of the dollar (the exchange rate), and drives down the value of the currency of the country purchasing foreign assets. Foreign assets include Treasury bills, other government assets (which are held as foreign exchange reserves by central banks), and foreign stocks and bonds (purchased by other government agencies, such as the Japanese pension fund, discussed below).

Background economics of how currency devaluation happens and what it does [“yuan” is the Chinese currency, also known as the “renminbi”]

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/>

Thus, if the Chinese yuan is devalued against the U.S. dollar, Chinese exports become cheaper in the United States, and U.S. exports become more expensive in China. This will increase U.S. imports from China, and U.S. exports to China will fall. A devaluation of the yuan also lowers the relative cost of China’s exports in every country where it competes with U.S. exports (and China is the most important competitor of the United States in third-country markets). Thus, devaluation of the yuan by China will also tend to reduce U.S. exports to the rest of the world, and increase the U.S. trade deficit with China and the world as a whole.

INHERENCY

China is the largest currency manipulator, followed by Japan

Dr. Robert E. Scott 2015 (PhD economics from Univ of Calif.) Currency Manipulation and the 896,600 U.S. Jobs Lost Due to the U.S.-Japan Trade Deficit 4 Feb 2015 <http://www.epi.org/publication/currency-manipulation-and-the-896600-u-s-jobs-lost-due-to-the-u-s-japan-trade-deficit/#conclusion>

Currency manipulation by more than 20 countries is the most important reason why U.S. trade deficits have not decisively reversed (Bergsten and Gagnon 2012). Currency manipulation by other counties lowers the value of the countries’ currencies relative to the U.S. dollar, which acts as a subsidy to those countries’ exports, and a tax on U.S. exports to every country where the U.S. competes with the exports of currency manipulators. After China, Japan is the world’s largest currency manipulator and thus responsible for a substantial share of the bloated U.S. global trade deficit.

China is a massive currency manipulator, and they’re under-reporting the statistics to hide it

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/>

However, China dwarfs all other currency manipulators in terms of its total global current-account surplus, and total FX [foreign exchange] holdings, due in part to the size of its economy. Among all currency manipulators, China had the largest 2012 current-account surplus ($191 billion), as estimated by the IMF (Bergsten and Gagnon 2012, Table 1 at 3). Furthermore, trade data from the United Nations Comtrade program suggest that China has been substantially underreporting its trade and current-account surpluses for at least the last six years. Adding up the bilateral trade balances reported by all of China’s trading partners yields annual estimates of China’s global goods trade surpluses that for recent years are as much as twice as large as those reported by China, as shown in Figure A.

“Recently reduced trade deficit shows China is no longer manipulating” – Response: China has not abandoned currency manipulation in its trade policy

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/>

The sharp drop in China’s self-reported goods trade surplus shown in Figure A has been used to argue that Chinese currency manipulation is no longer an issue (Krugman 2012). However, the persistence of very large and growing trade deficits with China, as reported by the universe of trading nations, suggests that China has not abandoned its dependence on currency manipulation as a primary engine of its export-led development strategy.

“New studies show China’s currency is correctly valued” – Response: Model is flawed, they didn’t look at massive purchases of US assets by China

Robert E. Scott 2014 (PhD economics from Univ of Calif) 22 May 2014 Maybe China’s Currency Isn’t Undervalued—Really? <http://www.epi.org/blog/chinas-currency-undervalued/> (RMB=renminbi, the Chinese currency)

In a blog post, [Martin Kessler and Arvind Subramanian](http://blogs.piie.com/realtime/?p=4300) of the Peterson Institute claim that, contrary to popular belief, the Chinese renminbi is not undervalued. Their assertion is based on new estimates of prices and income in China relative those in the United States. [The Wall Street Journal concludes](http://blogs.wsj.com/chinarealtime/2014/05/02/maybe-chinas-currency-isnt-undervalued-after-all/) that the world should “stop bugging China on the undervaluation of its currency.” However, by failing to consider the effects of China’s purchases of foreign exchange reserves and its significant trade surplus, the Kessler-Subramanian model appears fatally flawed. China invested more than half a trillion dollars in purchasing foreign exchange reserves in 2013 alone—a new record. But for those purchases, the value of the RMB would have been significantly higher. Kessler and Subramanian claim that the RMB was “only slightly undervalued in 2011” is simply not credible, when that exchange rate is being sustained with such massive purchases of foreign exchange reserves. In fact, China’s currency needs to rise in value every year because productivity growth in manufacturing is so much higher than in the United States and other countries.

“Chinese currency has gained value recently, disproving manipulation” – Response: Doesn’t matter. The proof of manipulation is the high level of capital exports from China – Period.

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/>

Although China’s currency has appreciated significantly since 2005, a fact that weighed heavily in the Treasury’s analysis, it hasn’t appreciated enough. This is true simply because the Chinese government has been investing hundreds of billions of dollars in purchasing U.S. and other foreign assets, and China has been running large (very large, as shown in Figure A) trade and current-account surpluses with the world, and large bilateral deficits with the United States. The proof that the U.S.-China exchange rate should be lower is the high level of capital exports from China. Period.

The Chinese currency is still undervalued, thanks to manipulation

Robert E. Scott 2014 (PhD economics from Univ of Calif) 22 May 2014 Maybe China’s Currency Isn’t Undervalued—Really? <http://www.epi.org/blog/chinas-currency-undervalued/>

But for China’s purchases of foreign exchange reserves, the renmimbi would have risen significantly. In fact, [its value declined 2.9 percent between December 2013 and May 15, 2014](http://www.federalreserve.gov/releases/h10/hist/), thereby reducing the cost of Chinese exports when measure dollars and other foreign currencies, and raising the cost of U.S. exports to China. There is no doubt that China’s currency is undervalued.  China has spent over $600 billion in the last 15 months just to keep it from appreciating. It’s time to end currency manipulation by China and other countries, and to rebalance global trade.

“U.S. quantitative easing policy is the same thing” – Response: QE is different because we invest in our own currency

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/>

Some countries have complained that quantitative easing (QE) by central banks in large countries such as the United States and United Kingdom, and in the eurozone, has caused their exchange rates to rise (Reuters 2010). However, there is a clear, substantive distinction between QE and currency manipulation. Currency manipulators make large purchases of foreign assets, which has the first-order effect of changing exchange rates and influencing foreign demand for a country’s output. However, central banks in the United States and the eurozone buy and sell assets denominated in their own currencies, with the aim of changing domestic interest rates, which directly affects domestic demand. While the interest rate changes do have possible spillover effects on exchange rates, if all countries undertook QE, there would be no net change in exchange rates or trade flows. That contrasts with a situation where one country—say, China—purchases the foreign assets of another—for example, the United States—and does not have open capital markets that allow a reciprocal purchasing of Chinese assets by U.S. investors or the Fed.

“Asian countries are just insuring against another financial crisis” – Response: Quantities far exceed what would be necessary

Joseph E. Gagnon 2012 (senior fellow at Peterson Institute for International Economics; formerly served at the US Federal Reserve Board as associate director, Division of International Finance and senior economist ) July 2012 Combating Widespread Currency Manipulation <https://www.piie.com/publications/pb/pb12-19.pdf> (brackets in original)

Some have argued that the Asian manipulators are motivated by a desire to build a large war chest to avoid a repeat of their experience during the Asian financial crisis of 1997–98. That may have been appropriate in the early part of the last decade, but Olivier Jeanne and Romain Ranciere (2006, 1) argue that “the recent [as of early 2006] buildup of reserves in Asia seems in excess of what would be implied by an insurance motive against sudden stops.” And figure 2a shows that developing Asia’s reserves have tripled since Jeanne and Ranciere wrote their study.

Currency manipulation is a form of trade barrier – has the same effect as a high tariff or export subsidy

Dr. C. Fred Bergsten 2015. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) The Truth About Currency Manipulation 18 Jan 2015 FOREIGN AFFAIRS <https://www.foreignaffairs.com/articles/united-states/2015-01-18/truth-about-currency-manipulation>

Changes in exchange rates can affect trade flows and trade balances far more than any of the border, or even behind-the-border, barriers that are the usual focus of trade agreements. Indeed, it is just as economically distorting to artificially depress currency values—as China and a number of other countries have done over the past decade—as it is to impose high import tariffs and subsidize exports directly. As a result of this behavior, in some periods the United States has suffered much larger trade deficits and sizable job losses than it otherwise would have.

“Manipulation has reduced recently” – Response: But it will happen again, we can’t ignore it

Dr. C. Fred Bergsten 2015. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) The Truth About Currency Manipulation 18 Jan 2015 FOREIGN AFFAIRS <https://www.foreignaffairs.com/articles/united-states/2015-01-18/truth-about-currency-manipulation>

The actual trade imbalances and volume of intervention have declined significantly in recent years, with the U.S. global deficit less than half its record peak in 2006 and the Chinese global surplus down by even more, but the problem has recurred repeatedly in the past and will surely arise again, so it cannot be ignored.

A/T “China isn’t manipulating much now” – Turn: Even if true, that makes now the perfect time to take action. If we wait until it happens again, more damage will occur and it will be too late

Dr. Simon Johnson 2015 (PhD economics; Professor of Entrepreneurship at the [MIT Sloan School of Management](https://en.wikipedia.org/wiki/MIT_Sloan_School_of_Management) and a senior fellow at the [Peterson Institute for International Economics](https://en.wikipedia.org/wiki/Peterson_Institute_for_International_Economics)) 19 May 2015 Preventing Currency Manipulation <http://baselinescenario.com/2015/05/19/preventing-currency-manipulation/>

Second, do countries currently manipulate their exchange rates on a massive scale?  For the most part, the extent of manipulation is at a relative low (as [Robert Samuelson argues in the Washington Post](http://www.washingtonpost.com/opinions/stopping-the-next-smoot-hawley/2015/05/17/5f09254a-fb1e-11e4-9ef4-1bb7ce3b3fb7_story.html)).  But this does not mean that we should forget about this issue – the incentive to manipulate (keep an exchange rate undervalued in order to boost a country’s exports) will likely return in the future, for example when a country experiences a slowdown in growth.  In fact, the Treasury Department is raising concerns along these lines with regard to South Korea’s current behavior. And the fact that manipulation is relatively less important in country strategies at this moment – for example, in China and Japan – means that this is a good moment in which to negotiate the issue.  This is not about confrontation with current policies; it is about preventing future action that can be damaging to the US economy. When currency manipulation again becomes significant – and when it does great damage to parts of US manufacturing and to our service sector – it will be too late to attempt a negotiated response.  Now is likely the best time to shift official thinking on what can be regarded as reasonable trade practices for the coming decades.

There is no mechanism to fight currency manipulation

Joseph E. Gagnon 2012 (senior fellow at Peterson Institute for International Economics; formerly visiting associate director, Division of Monetary Affairs at the US Federal Reserve Board; served at the US Federal Reserve Board as associate director, Division of International Finance and senior economist ) July 2012 Combating Widespread Currency Manipulation <https://www.piie.com/publications/pb/pb12-19.pdf>

This Policy Brief identifies the 20 most egregious currency manipulators over the past 11 years. Four groups of countries stand out: (1) longstanding advanced economies such as Japan and Switzerland; (2) newly industrialized economies such as Israel, Singapore, and Taiwan; (3) developing Asian economies such as China, Malaysia, and Thailand; and (4) oil exporters such as Algeria, Russia, and Saudi Arabia. Although currency manipulation to boost trade balances is a violation of the Articles of Agreement of the International Monetary Fund (IMF), there is currently no procedure to punish or curtail it.

WTO (World Trade Organization) and IMF (International Monetary Fund) are not effective at enforcing rules against currency manipulation

Dr. C. Fred Bergsten 2014. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) Jan 2014 Addressing Currency Manipulation Through Trade Agreements (brackets added) <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDwQFjAD&url=https%3A%2F%2Fpiie.com%2Fpublications%2Fpb%2Fpb14-2.pdf&ei=X0l0VZPXCcauU_DVgcgB&usg=AFQjCNHKF6Bx1bMQvQRgcES4LBJ-suN7og&sig2=3KfVObSLwWRzvT5-sZc6yA&bvm=bv.95039771,d.bGg>

But it must be remembered why the issue has remained unresolved for so long. The IMF Articles contain legally binding objectives that are largely adequate but contain no enforcement tools. The “dispute settlement mechanism” has proven to be enormously difficult to navigate (Blustein 2013). The WTO charter’s vague obligations have failed to trigger its relatively efficient DSM [dispute settlement mechanism] and powerful sanctions. Any effective currency chapter in a trade agreement would have to be sufficiently ambitious on all counts to be credible as a deterrent to currency manipulation.

HARMS / SIGNIFICANCE

Currency manipulation causes unemployment and lower wages

Peter Morici 2015 (*economist and business professor at the University of Maryland) 11 June 2015* Obama's Asian Trade Deal Sells Out American Workers <https://www.newsmax.com/PeterMorici/Obama-Asian-Trade-Deal-American-Workers/2015/06/11/id/649953/>

Applying data from the World Bank, which calculates what national currencies should be worth in U.S. dollars to have comparable purchasing power, the yuan, won and yen currently appear to be at least 50, 25 and 15 percent undervalued, respectively. And those exchange rate practices compel other Asian trading nations to follow similar policies, lest they be shut out of markets by unfairly priced Chinese, Korean and Japanese goods—for example, India’s rupee is only about one-fourth its fair market value. U.S. multinationals, like GE and IBM, would still profit from the TPP by moving production to Asia to take advantage of labor and other resources made cheaper by manipulated currencies but ordinary working Americans would face more unfairly advantaged foreign competitors, unemployment and even lower wages. As the president has framed the TPP negotiations, it is simply a bad deal for ordinary Americans.

U.S. is paying a major economic price for not having a currency manipulation policy

Dr. C. Fred Bergsten 2015. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) The Truth About Currency Manipulation 18 Jan 2015 FOREIGN AFFAIRS <https://www.foreignaffairs.com/articles/united-states/2015-01-18/truth-about-currency-manipulation>

The United States has paid a major economic price for never having established an effective currency manipulation policy. Now it could suffer a huge defeat in trade policy, and indeed foreign policy, for the same reason. The TPP and other prospective trade legislation provide a compelling point of departure to take decisive action, as Congress and key stakeholders are insisting, whether in the new trade agreements themselves or otherwise. The administration is commendably and courageously conducting the most ambitious trade program in the history of the United States, with potentially enormous benefits for both its economy and foreign policy, but the administration must handle the currency issue much more adroitly to bring its strategy to fruition.

Currency manipulation is very effective at exporting unemployment to other countries

Dr. C. Fred Bergsten 2014. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) Jan 2014 Addressing Currency Manipulation Through Trade Agreements <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDwQFjAD&url=https%3A%2F%2Fpiie.com%2Fpublications%2Fpb%2Fpb14-2.pdf&ei=X0l0VZPXCcauU_DVgcgB&usg=AFQjCNHKF6Bx1bMQvQRgcES4LBJ-suN7og&sig2=3KfVObSLwWRzvT5-sZc6yA&bvm=bv.95039771,d.bGg>

But because manipulation aims to produce currency undervaluation that reduces the prices of a country’s exports and increases the prices of its imports, it is equivalent to a simultaneous export subsidy and import surcharge. It is thus as protectionist as directly applying such measures. When the amounts involved become very large, as they frequently have, they can export unemployment far more than most trade policy devices.

SOLVENCY / ADVOCACY

Announcing our clear intention to use countervailing currency intervention would deter most manipulation

Dr. C. Fred Bergsten 2014. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) Jan 2014 Addressing Currency Manipulation Through Trade Agreements (brackets added) <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDwQFjAD&url=https%3A%2F%2Fpiie.com%2Fpublications%2Fpb%2Fpb14-2.pdf&ei=X0l0VZPXCcauU_DVgcgB&usg=AFQjCNHKF6Bx1bMQvQRgcES4LBJ-suN7og&sig2=3KfVObSLwWRzvT5-sZc6yA&bvm=bv.95039771,d.bGg>

This means, however, that it would be highly desirable to add a monetary policy tool, one that would effectively fight fire with fire. Such an approach would overcome the problem that trade policy remedies like snapbacks only curb imports, whereas currency manipulation also suppresses the aggrieved country’s exports (to global markets as well as to the manipulating country itself ). An aggrieved country should thus be authorized to employ CCI [countervailing currency intervention] for this purpose: purchases of currency of the manipulating country to neutralize the impact of that country’s own intervention in the foreign exchange markets (Bergsten 2003, 2010). A clear indication by the United States that it was prepared to act on such authorizations should deter most future manipulation efforts.

Don’t have to wait for trade agreements: We can do countervailing currency intervention unilaterally, and it would help our TPP negotiations

Dr. C. Fred Bergsten 2014. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) Jan 2014 Addressing Currency Manipulation Through Trade Agreements <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDwQFjAD&url=https%3A%2F%2Fpiie.com%2Fpublications%2Fpb%2Fpb14-2.pdf&ei=X0l0VZPXCcauU_DVgcgB&usg=AFQjCNHKF6Bx1bMQvQRgcES4LBJ-suN7og&sig2=3KfVObSLwWRzvT5-sZc6yA&bvm=bv.95039771,d.bGg>

CCI could presumably be carried out by Treasury and the Federal Reserve under current legislative authorities although specific authorization for such a policy was also included (as “remedial currency intervention”) in the currency bill passed by the Senate (but not taken up by the House) in 2011. Including such a provision in FTAs would be the most straightforward and effective response, at least for the United States, to currency manipulation. Lodging implementation of this key sanction in finance ministries and central banks should assuage institutional concerns that make it difficult to address the problem through trade agreements. The United States could of course simply start implementing CCI unilaterally against some or all countries that it might determine were manipulating; its doing so might ease congressional concerns and encourage TPP partners to include currency in the agreement as a way to bring it within agreed multilateral rules and procedures.

Failing to address Chinese manipulation now means they get away with it, and will do it again in the future

Dr. C. Fred Bergsten 2014. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) Jan 2014 Addressing Currency Manipulation Through Trade Agreements (brackets added) <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDwQFjAD&url=https%3A%2F%2Fpiie.com%2Fpublications%2Fpb%2Fpb14-2.pdf&ei=X0l0VZPXCcauU_DVgcgB&usg=AFQjCNHKF6Bx1bMQvQRgcES4LBJ-suN7og&sig2=3KfVObSLwWRzvT5-sZc6yA&bvm=bv.95039771,d.bGg>

Moreover, China has recently signaled its interest in joining the TPP [Trans-Pacific Partnership] at a later stage, fearing large trade diversion losses if it stays outside the agreement. If China joins, the world’s largest manipulator would come within the proposed disciplines. Conversely, a failure to adopt effective disciplines on currency manipulation almost assures that the practice will continue, as countries demonstrably get away with it, and perhaps even expand as additional countries feel forced to defend themselves against the current manipulators.

U.S. has the ability to use counter-interventions to reverse Chinese currency intervention

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/>

The United States possesses the policy tools and executive authority to engage in countervailing currency interventions (CCI) against the effects of currency manipulation by other countries that have open capital markets, such as Japan, Hong Kong, South Korea, and other large currency manipulators listed previously. Recently, China has opened an offshore market in Hong Kong for assets issued by the Chinese government and Chinese banks, offering a vehicle for CCI in Chinese assets (Joseph 2013). The Treasury and Federal Reserve should begin to use the authority and resources they already have to offset efforts by the other manipulators to suppress their currencies. In essence, the Fed has unlimited ability to create money to purchase foreign assets in such quantity as to offset any and all currency manipulation by other countries.

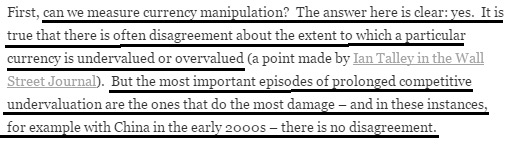
Declaring a currency manipulator opens the door to sanctions

Renee Haltom 2013 (Editorial Content Manager at Federal Reserve Bank of *Richmond* ) Sizing Up Currency Manipulation <https://www.richmondfed.org/publications/research/econ_focus/2013/q2/pdf/cover_story.pdf>

Nowadays, action from the United States would probably start with a declaration that China is a currency manipulator, a phrase that gained more notoriety during the 2012 presidential campaign. Since the 1988 Omnibus Trade and Competitiveness Act, the Treasury Department has been required to publish semiannual reports on suspected currency manipulators. The last report, issued in April 2013, declined to apply that label to China, citing the RMB’s gradual appreciation over the last decade. The declaration would open the door to tariffs, capital controls (that could, for example, prohibit China from buying Treasuries), or trade sanctions. At a minimum, the label requires the United States to hold talks with offending governments.

“No way to measure currency manipulation” – Response: Yes, we can. Prolonged manipulations are easy to evaluate

Dr. Simon Johnson 2015 (PhD economics; Professor of Entrepreneurship at the [MIT Sloan School of Management](https://en.wikipedia.org/wiki/MIT_Sloan_School_of_Management) and a senior fellow at the [Peterson Institute for International Economics](https://en.wikipedia.org/wiki/Peterson_Institute_for_International_Economics)) 19 May 2015 Preventing Currency Manipulation <http://baselinescenario.com/2015/05/19/preventing-currency-manipulation/>



ADVANTAGES

Ending currency manipulation would be good for both US and Chinese economies

Dr. Robert E. Scott 2014 (PhD economics from Univ of Calif ) 26 Feb 2014 Stop Currency Manipulation and Create Millions of Jobs <http://www.epi.org/publication/stop-currency-manipulation-and-create-millions-of-jobs/> (brackets added)

Gagnon’s careful research shows that if large, government purchases of foreign assets are ended, market exchange rates will realign, and large trade and current account imbalances will shrink. This will be good for the United States and other victims of currency manipulation, and for China and other currency manipulators. Trade balances and current accounts in the United States, Europe, and other countries hurt by currency manipulation will improve, creating millions of jobs in those countries. Consumers in China and other currency manipulators will enjoy lower-cost imports and rising standards of living. Currency manipulators will have to shift resources to support domestic, demand-led growth, but they will have ample public savings to support such investments, especially if they stop investing hundreds of billions of dollars per year in excess purchases of low-return, FX [foreign exchange] reserves.

DISADVANTAGE RESPONSES

“Starting a trade war” – Response: We’re already in a trade war

*Prof. Peter Navarro 2012 (professor at the Paul Merage School of Business, University of California-Irvine )* China’s Currency Manipulation: A Policy Debate, FOREIGN AFFAIRS Sept/Oct 2012 <http://www.worldaffairsjournal.org/article/china%E2%80%99s-currency-manipulation-policy-debate>

Richard McCormack, the editor and publisher of Manufacturing & Technology News, gets to the heart of the mercantilist matter by observing, “For China to sell something at one tenth the price of what it would cost in the United States to produce, they are cheating monumentally, in a major, massive sort of way.” According to Dan Slane, head of the US-China Economic and Security Review Commission, “We are in a trade war and stealing, lying, and cheating on the part of the Chinese are all part of it.”

“Starting a trade war” – Response: US has the moral high ground. The other countries started the trade war by cheating

Dr. C. Fred Bergsten 2014. (PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept.) Jan 2014 Addressing Currency Manipulation Through Trade Agreements (brackets added) <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0CDwQFjAD&url=https%3A%2F%2Fpiie.com%2Fpublications%2Fpb%2Fpb14-2.pdf&ei=X0l0VZPXCcauU_DVgcgB&usg=AFQjCNHKF6Bx1bMQvQRgcES4LBJ-suN7og&sig2=3KfVObSLwWRzvT5-sZc6yA&bvm=bv.95039771,d.bGg>

To be sure, the United States will be accused in some quarters of “launching a trade war” if it insists on including the currency issue in trade agreements (or especially if it were to take Nixon-like unilateral action to enhance the prospect for reaching new international accords). The truth is the opposite for at least four reasons. First, it is the currency manipulators who launched the “trade war” (or, more properly, “currency war”) a decade or more ago by violating fundamental rules of the international economic system to massively strengthen their own competitive positions. Second, the United States has accepted these manipulations by other countries, largely passively, and has in fact run large trade and current account deficits for over 30 years. Washington, for example, has accommodated and indeed enabled the success of the export-oriented growth strategies of a succession of “economic miracle” cases, ranging from Japan in the 1970s and 1980s through the newly industrialized economies (Korea, Taiwan, Singapore, and Hong Kong) in the 1980s and 1990s to China and several other East Asians more recently. By buying dollars, the surplus countries financed the US deficits without too many complaints, to be sure, but the net result was clearly to strengthen their economies and weaken the United States. Any moral high ground in the trade debates of the last half century clearly belongs to the United States.

“China stops buying US Treasury debt” – Response: They already stopped and it had no impact

Gordon Chang 2013. (journalist; lived and worked in Shanghai and Hong Kong for almost two decades) FORBES magazine What If China Stops Buying U.S. Government Debt? 6 Oct 2013 <http://www.forbes.com/sites/gordonchang/2013/10/06/what-if-china-stops-buying-u-s-government-debt/>

Yet historical data reveal a surprising trend.  In July 2011, China set a record with its $1.3149 trillion of Treasuries.   Then, over the course of the last two years, Beijing offloaded $37.6 billion of these instruments. In short, the Chinese have not in fact been funding the Federal deficit since the middle of 2011.  And during that period, the Federal government was able to continue operating, global markets did not panic, and rates on Treasuries declined.  Significantly, China decreased its holdings at a time when the U.S. Treasury increased its borrowing from abroad, by $1.749 trillion in 2011 and by $821 billion last year.  All this is not to say the U.S. should run budget deficits—it definitely should not—but it does tell us that we do not need the Chinese to do so.

“Hurts US/China relations” – Response: Non-unique. China has already given up on meaningful relationship with the US

Stephen Harner 2015. (worked in Japan for more than 12 years in the eighties and nineties with the U. S. State Department, Citibank and Merrill Lynch. After many more years in China in banking (Deutsche Bank and Ping An Bank) and consulting, now works in Tokyo for Yangtze Century Ltd. (Hong Kong/Shanghai) ) 18 Feb 2015 FORBES magazine Has China Given Up On The U.S.? Short Answer: Yes <http://www.forbes.com/sites/stephenharner/2015/02/18/has-china-given-up-on-the-u-s-short-answer-yes/>

Of course, it is easy for those of a Panglossian mentality—i.e., most of the mainstream commentariat toward the policies of the Obama administration–to be misled or encouraged to think that all is–or soon will be—right with the world, to view any development in China-U.S. relations in a positive light, as a signal of steadily and inevitably improving relations, if not systematic convergence.” Such has been the general reception of Chinese President [Xi Jinping](http://www.forbes.com/profile/xi-jinping/)’s acceptance of Obama’s invitation to make a “state visit” to [Washington](http://www.forbes.com/washington/), D.C. in September. A more objective and sober assessment would question whether the Obama administration extended the invitation at the state visit level as a needed inducement to a China reluctant to accept it. Why might China be reluctant? It is because, after four years of sincere and painstaking, but fruitless, unreciprocated Chinese efforts to initiate a “new type of great power relations” with the United States—rather, meeting only the seemingly unstoppable bureaucratic momentum of the administration’s bellicose political/military power “pivot (or “rebalance”) to [Asia](http://www.forbes.com/asia/)”–China has largely given up on beginning a meaningful, positive reset of China-U.S. strategic relations. Now, instead, China has embarked on what is being termed by some its own “pivot to Asia”–redirecting its foreign policy and strategic emphasis to its regional neighbors, and to the regions and countries along its New Maritime Silk Road and New Silk Road.

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