

Can Trump Balance Trade Without Fixing the Overvalued Dollar?

Job #1: Implement the Market Access Charge (MAC)

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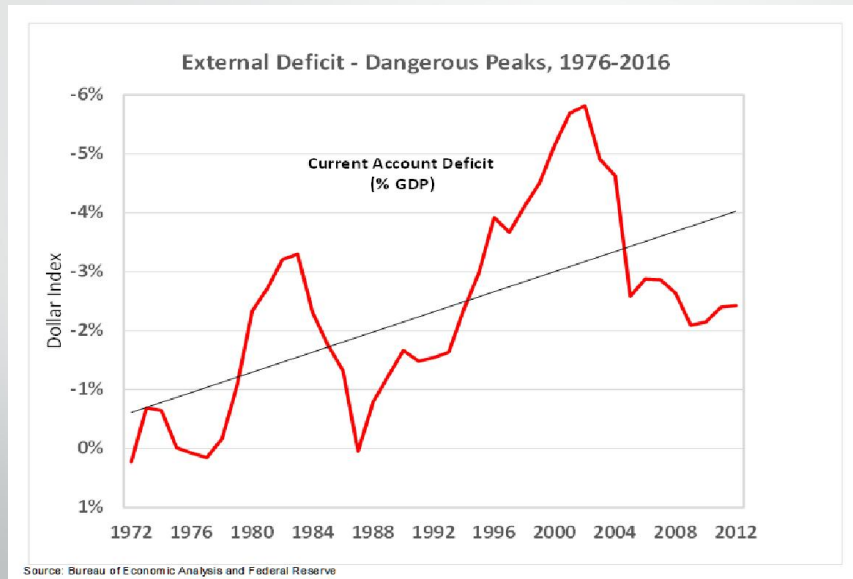
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To Make America Great Make America Competitive Key Points

1. America suffering serious economic, social and national security problems.
2. Primary cause – unbalanced international trade.
3. Trade unbalanced because dollar overvalued.
4. Market Access Charge (MAC) can fix dollar's value.

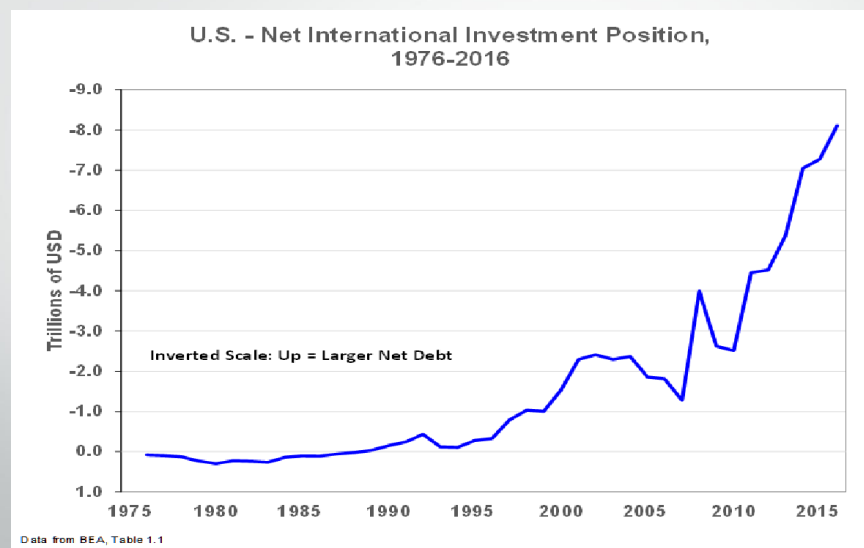
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Current Account Deficit Trends ..



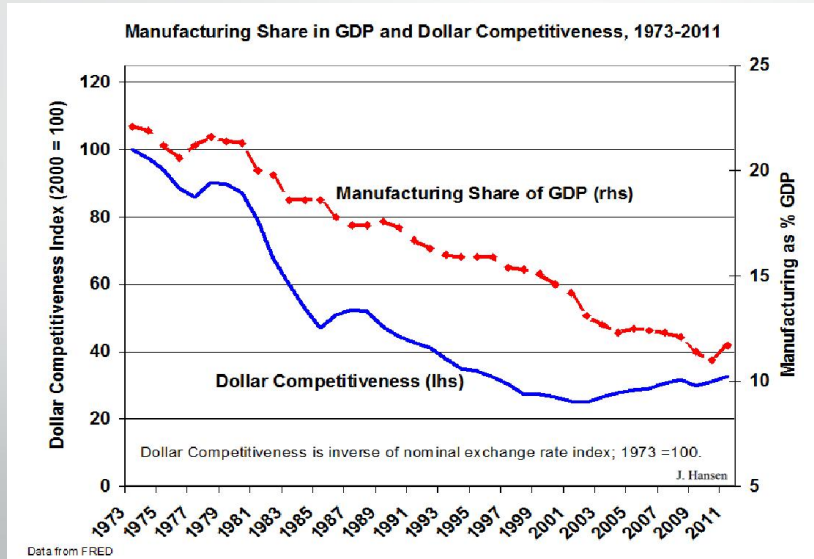
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Growing Debt to Foreign Countries ..



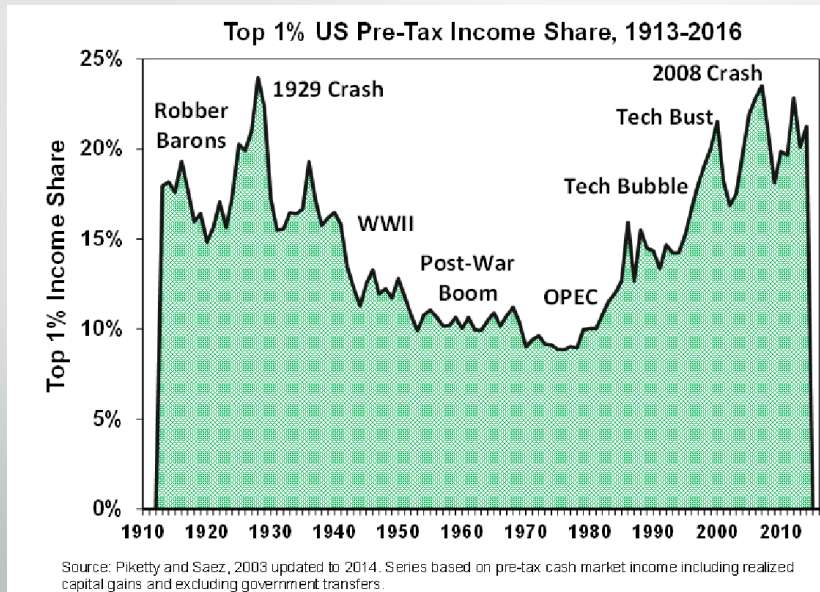
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Manufacturing Shrinking Share of GDP..



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Income Polarization ..

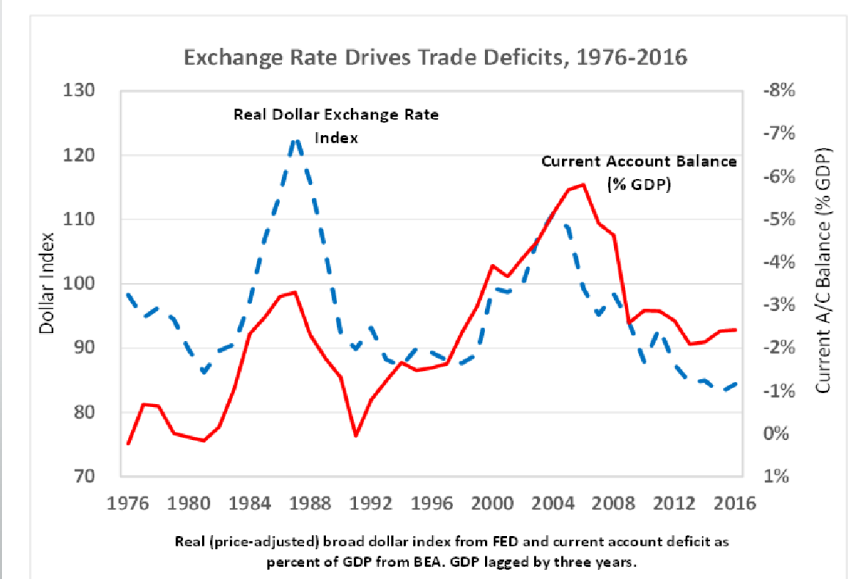


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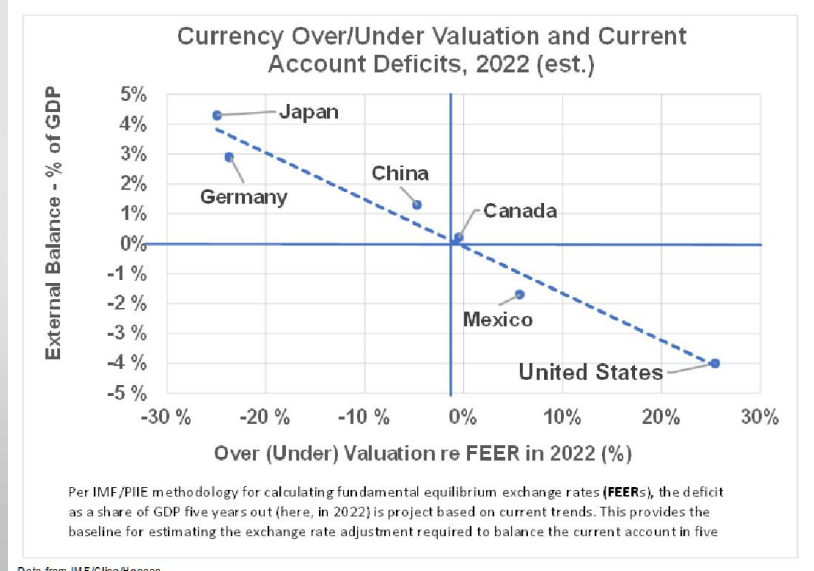
National Security at Risk

- **Economic**
 - Must produce, compete, avoid crises
- **Social**
 - United we stand. Divided we fall.
- **Political**
 - Economic and social roots
- **Defense**
 - Soft Power and Hard Power

Key Problem: The Dollar's Exchange Rate ..

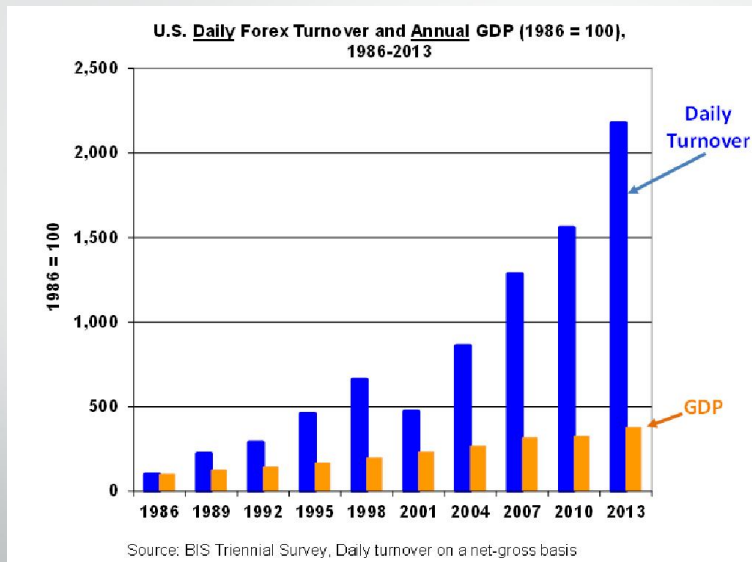


Dollar is Seriously Overvalued ..



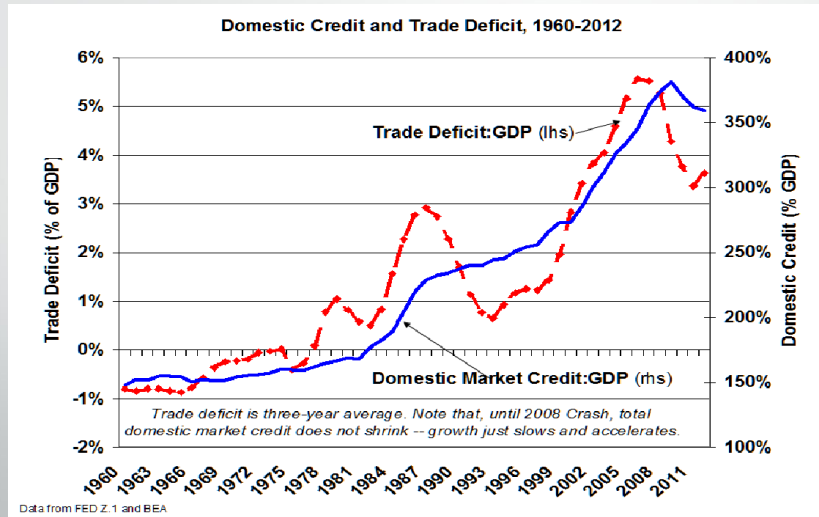
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Cross-Border Foreign Exchange Flows ..



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Credit Outstanding and Trade Deficits..



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How Can We Make America Competitive Again?

- Options for Restoring Competitiveness
 - Physical Competitiveness (equipment and skills)
 - Trade Policy (quotas, tariffs, prices & exchange rates)
 - Exchange Rate (Restore link between exchange rates and balanced trade)

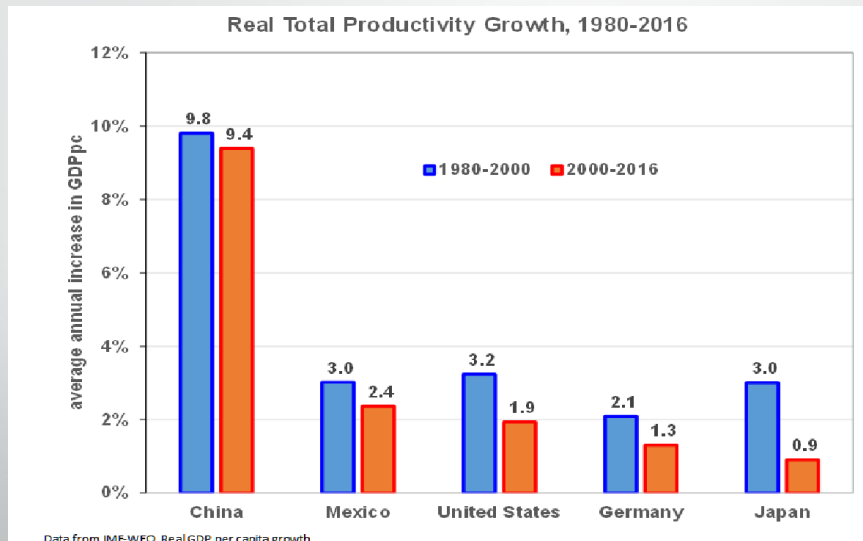
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1. Physical Competitiveness Options

- Possible Solution
 - Reverse inadequate investment.
- Barriers
 - Low profits.
 - Time for implementation.
 - Catch-up hard.

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Productivity Growth – Too Slow ..



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2. Trade Policy Options

- **Traditional Trade Law Options**
 - Quotas
 - General and Product-Specific Tariffs
 - Non-tariff barriers (inspections, technical specs, market access limitations)
 - Anti-dumping and countervailing duties (ADD, CVD)

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3. Exchange Rate Options

- **Why Focus on Fixing the Dollar's Exchange Rate?**
 - Dollar's over-valuation causes trade deficits, job loss,
 - Dollar's link to balanced trade broken.
- **Why is Dollar's Link to Balanced Trade Broken?**
 - Sharp expansion in global capital flows.
 - Trade in capital – not trade in goods – sets exchange rates.
 - U.S. hit especially hard.

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How to Move Dollar to Trade-Balancing Level?

- **Real Depreciation**
 - Price deflation – road to recession
- **Nominal Depreciation**
 - 1. Direct Currency Market Intervention**
 - Bretton-Woods style
 - Bergsten-Gagnon - Countervailing Currency Intervention
 - 2. Indirect Currency Market Intervention**
 - Market Access Charge

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20th Century Exchange Rate Options

- 1. Trust Markets to Fix Problem. But,**
 - Link between markets and balanced trade is broken.
- 2. Counter Manipulation of Currency:**

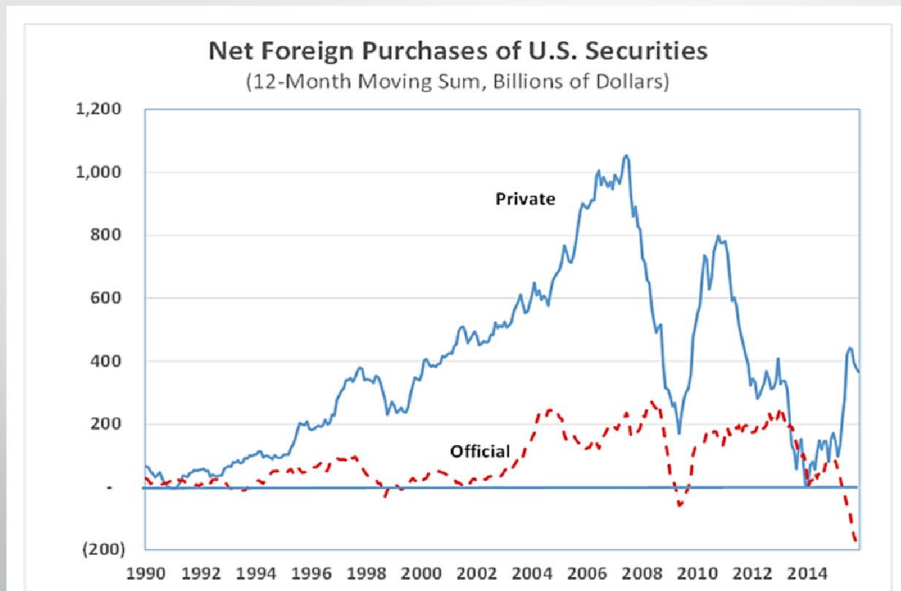
Force currency manipulators to revalue. However,

 - ***Threats are largely futile.***
China puts its own interests first. Will not fix our problems for us.
 - ***Countervailing Currency Intervention possible.*** However,
 - High cost. Must raise government deficit ceiling.
 - Official manipulation not primary cause of U.S. trade deficits

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Official Currency Manipulation – Minimal ..



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Market Access Charge (MAC) - Outline

- What is the MAC ?
- Why would it fix the overvalued dollar ?
- How would the MAC's dynamic rates work ?
- How would it be administered ?
- Would the MAC be legal ?
- How to implement it ?
- Benefits and costs of the MAC ?

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What is the MAC?

- **MAC = Peak Load Pricing Tool**
 - widely used when demand exceeds supply.
- If dollar is overvalued, demand exceeds supply.
- MAC on all capital inflows. Reduces demand and overvaluation.
- Dollar returns to trade-balancing value.
- If deficits return, so does the MAC.

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How MAC Works

- MAC starts at 50 basis points with trade deficit.
- Charge rises by 25 bp per 6 months as deficit increases.
- Charge declines if deficit declines.
- MAC goes to zero if deficit < half percent of GDP

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MAC Administration

- **MAC administration** – U.S. Treasury
- **MAC Collection** - correspondent banks
- **MAC Revenue Transfer** – electronic from banks to Treasury
- **MAC Revenue Use** - restricted to non-recurring expenses:
 - Investments to improve U.S. competitiveness.
 - Trade adjustment costs
 - Pay down public debt and offset debt service burden

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MAC Legality

- **IMF** -- Articles of Agreement
Institutional View on Capital Flow Management
- **OECD** – Code of Liberalization of Capital Movements
- **U.S.** - Trade Law and Treaties
- **WTO/GATT** – General Agreements

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MAC Implementation Options

- **International:** IMF/WTO Agreement
- **Multilateral/Bilateral:** Free Trade Area type of treaty
- **Unilateral action:** U.S. Congress - Legislation
- **Unilateral action:** President under International
Emergency Economic Powers Act of 1977

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MAC Benefits for Private Sector

MAC will generate benefits attractive across the political, economic and social spectrum.

- **Business Community**
- **Workers and Families**

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MAC Benefits for Government

- **Revenues UP**
 - Direct -- MAC revenues.
 - Indirect – Economic growth.
- **Expenditures DOWN**
 - Fewer bailouts.
 - Less welfare & more well-paying jobs.

**Budget Deficit Down
&
Debt Service Costs Down**

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MAC Headwinds - Myths from Past ^[1]

- Markets set trade-balancing exchange rates.
- Capital mobility always good.
- American can dictate policies to foreign countries.
- Reserve currency status an exorbitant privilege.
- Strong dollar in America's best interests.

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MAC Headwinds - Myths from Past ^[2]

- Deficits and debt don't matter.
- Interest rates drive investment and growth.
- Foreign borrowing reduces government debt costs.
- Overvalued dollar helps the poor.
- Don't upset the market – it will collapse.

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MAC – The Safe Road to Success

- Concept is tried and true.
- Introduced gradually and automatically.
- Increments like Fed Funds Rate and Euro/Dollar rate.
- Even-handed. Level playing field.

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Is the MAC a Silver Bullet? No

- **Necessary but not sufficient.**
- **Encourages investments in:**
 - Plant, equipment, and infrastructure.
 - Research and development for innovation and efficiency
 - Education and skills training at all levels.
- **Further reforms needed in:**
 - Taxes and regulations.
 - Health care.

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Complementary Trade Policies To Make the MAC Even Better

- **Countervailing Currency Manipulation (CCI)**
- **Anti-Dumping and Countervailing Duties**
- **Trade Policy Enforcement**

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Key Take-Aways

- A. Trade deficits are killing the American Dream – Jobs, Economy, Society, Security.
- B. Trade deficits prove dollar is overvalued.
- C. MAC is best way to fix overvalued dollar.
- D. Supporting policies will also help.

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America Needs a Competitive Dollar – Now!

Let's Fight for MAC Approval

Let's Make America Great Again

Thank You

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