

# **An Explanation of The Competitive Dollar for Jobs and Prosperity Act**



April 23, 2018

## **Overview**

President Trump's recent tariff actions are one way of addressing America's trade imbalances and industrial decline. But currency exchange rates are a more powerful driver of trade surpluses and deficits, and a greater obstacle to increased US production. Currently, persistent US dollar overvaluation causes much of America's multilateral trade deficit—with an overvalued dollar raising the price of US goods and services in global markets. While the United States has an array of fiscal and monetary tools to manage its internal economy, it lacks effective exchange rate management tools to manage trade flows that have a powerful effect on the domestic economy.

The Competitive Dollar for Jobs and Prosperity Act provides these tools as well as standards that govern their use.

## **Exchange Rates and Global Trade Balances**

Flexible exchange rates should adjust automatically to levels that balance trade. Unfortunately for the United States, this mechanism has been disrupted for many years, raising the value of the dollar far above its trade-balancing price.

First, global capital flows are increasingly dominated by private sector financial transactions. As issuer of the world's most sought-after currency, the US consistently attracts large net inflows of foreign capital. This large net foreign demand for dollars and dollar-denominated assets drives up the dollar's value, raising the price of US goods and making them less competitive in US and foreign markets. Imports surge into the US because they are artificially cheap, displacing American-made products and services. US exports become too expensive for foreign buyers.

The other cause of an overvalued US dollar is currency manipulation—when the governments of other countries hoard dollars received for their exports rather than exchange them. China, Japan, and South Korea have grown to be manufacturing powerhouses at US expense in large part due to such currency manipulation.

The US needs the tools to deal with both mercantilist tactics and excessive, private capital inflows.

## **Competitive Dollar for Jobs and Prosperity Act**

The Competitive Dollar for Jobs and Prosperity Act would task the Federal Reserve with achieving and maintaining a current account balancing price for the dollar within five years. It would create an exchange rate management tool in the form of a Market

Access Charge (MAC)—a variable fee on incoming foreign capital flows used to purchase dollar assets. The Fed would set and adjust the MAC rate. The Treasury Department would collect the MAC revenue. The result would be a gradual move for the dollar toward a trade-balancing exchange rate. The legislation would also authorize the Federal Reserve to engage in countervailing currency intervention when other nations manipulate their currencies to gain an unfair trade advantage.

### **Key Parts of the Competitive Dollar for Jobs and Prosperity Act (CDJPA)**

The CDJPA does these things:

1. Amends the Federal Reserve Act to add a third mandate—achieving a current account balance—to the existing, dual mandate of the Fed for full employment and price stability.
2. Creates an exchange rate management tool called the Market Access Charge (MAC) on “covered transactions” to gradually achieve and maintain a trade-balancing price for the US dollar.
  - 2.1. Instructs the Fed to set and adjust the MAC, moving it higher or lower as needed, to moderate incoming capital flows and achieve a current account balance.
  - 2.2. Allows the Fed to consider impacts on US economic output, employment, interest rates, and markets in setting and adjusting the MAC.
3. Defines Covered Transactions as all foreign purchases of securities and other US assets denominated in USD.
4. Tasks the Treasury with administering the collection of the MAC
5. Allows the Fed to engage in countervailing currency intervention to neutralize currency manipulation by other countries.

### **Summary**

The CDJPA provides the missing tools America needs to defend its industries, workers, farmers, and ranchers from incoming foreign capital that weaponizes the dollar against domestic manufacturers and agricultural producers. The CDJPA would re-establish the dollar’s connection with a trade-balancing price, increase exports, create good paying jobs, and achieve broadly shared prosperity.