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Don't let currency fear obstruct trade

By Ramesh Ponnuru

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Both parties in Washington have coalesced on a common demon. They call it "currency manipulation," and they're busy designing bad policies to combat it.

Congressmen want the Trans-Pacific Partnership, a major free-trade deal, to include provisions against such manipulation. And they want to use the trade-promotion authority bill -- which would make it easier for presidents to negotiate trade agreements -- to require such provisions in future deals.

These are bad ideas. Free-trade agreements enhance our wealth and that of other countries, and they're less likely to be concluded if they're tied to arguments about currencies.

The congressmen argue that other countries, especially China, are intentionally cheapening their currencies against the dollar, boosting their exports to the U.S., and reducing imports of American goods. They say that this is a form of protectionism that is costing American jobs. And they want to retaliate by jacking up taxes on imports from the offending countries.

One weakness of this case is that you can't draw a straight line from another country's weak currency to its trade balance to harm to Americans, as my American Enterprise Institute colleague Derek Scissors has pointed out.

Philip Levy, who studies global economics for the Chicago Council on Global Affairs, says that currency manipulation can't be compared to the classical case of protectionism: Either a country is levying tariffs on some American products or it isn't. Currency manipulation, by contrast, is in the eye of the beholder. There is no objective measure of what value a currency should have.

The idea that countervailing duties can offset currency manipulation is also flawed. Because economists disagree on whether currency manipulation is happening in particular instances, and to what degree it's happening, it isn't clear how high this duty should be set. Dan Ikenson, a trade-policy analyst at the Cato Institute, notes that if the duty is set too high, the effect will be to distort trade rather than to eliminate a distortion. He also says that a duty can't do anything by itself to boost American exports to the offending country. (It can help U.S. exporters only if the pain it inflicts induces the foreign government to change its conduct.)

Other countries have accused the U.S. of being a currency manipulator because of its monetary policy. They argued that the Federal Reserve's bond-buying program, which was halted last year, made the dollar cheaper and gave U.S. exporters an unfair advantage. How should governments distinguish between legitimate monetary policy and illegitimate currency interventions?

Representative Sander Levin, the top Democrat on the House committee that deals with trade policy, has tried to outline some criteria for identifying manipulators that wouldn't make the U.S. into one. One assumes, though, that economic officials in other countries aren't uniformly fools and would realize that these criteria are rigged. Why would they accept an agreement that lets the U.S. devalue its currency but exposes them to sanctions if they do the same?

Weak as the case is for punishing alleged manipulators, it commands strong support. In the last Congress, 230 representatives and 60 senators signed letters demanding action. It may be, then, that there's no way to get Congress to pass the trade-promotion authority bill or to agree to the Trans-Pacific Partnership without responding to this demand. In that case, Congress should move forward with those two bills, then introduce a separate one getting tough on whatever it decides to count as manipulation.

A bill like that would include arbitrary criteria and do very little to boost employment. It might very well face challenges at the World Trade Organization. And implementing it would be a headache for the Commerce Department, since every company facing competition from a country deemed to be a manipulator would want to slap duties on their competitors.

But at least we wouldn't be making this nonsense a roadblock to reaching a deal that helps all of us.