THE DAILY CALLER

Economists: Go After Currency Manipulators in Trade Deal

PETER FRICKE
Contributor
December 08, 2014

Negotiations over the proposed Trans-Pacific Partnership free trade agreement are continuing this week in Washington, but some economists say the talks shouldn't be limited to traditional trade barriers like tariffs.

According to Market Pulse, among the issues on the agenda are "intellectual property and reform of state-owned firms to establish fair business competition," as well as bilateral issues, "such as Japan's proposed exceptional tariffs on some agricultural produce."

A recent paper by supply-side economist Arthur Laffer makes the case that non-tariff barriers, especially currency manipulation, should be considered equally important.

Laffer explains that the collapse of the gold standard in 1971 enabled countries to adopt "beggar-thy-neighbor" policies, whereby they artificially devalue their currencies in order to make "domestic goods cheaper relative to foreign goods."

"Undervaluation of a country's currency can improve a country's export competitiveness," Laffer notes, with the result that "some countries have engaged in currency manipulation as part of a long-term, export-driven growth tactic."

One country that is employing such a strategy is Japan, which The Wall Street Journal claims "has allowed the yen to fall more than 30% versus the dollar in the last two years," in an effort to increase the overseas revenue of Japanese multinationals.

"Japan had lost competition around the world because of the strong yen," Japanese Prime Minister Shinzo Abe said at a rally on Sunday, arguing that a weaker yen would boost both job creation and tourism.

To judge from earnings reports and stock prices, the devaluation has had the desired effect on exporters, but it has also "proved unpopular with domestic consumers and small businesses, which have to deal with higher food and energy costs."

Globally, Laffer says, currency manipulation has created a "two-speed recovery" in which "real growth has been tepid at best for developed countries that do not intervene in the foreign exchange market, while countries that have been identified as currency interventionists have experienced a much steadier pace of recovery from the financial crisis."

"As of 2012, the scope of currency manipulation is estimated to be approximately $1.5 trillion," Laffer says, adding that, "it is likely that millions of jobs in the U.S. were lost as a result of current account imbalances that were generated, in part, by currency manipulation."

However, he also asserts that, "These spillover effects would likely disappear if exchange rates were liberalized to better exhibit market fundamentals, which would also potentially improve welfare in undervalued currencies' economies by improving domestic demand."

Given the stakes, "it is vital that the TPP include defined monetary policy standards and a means to identify currency manipulators and enforce violations." To accomplish that, Laffer advocates for a three-part test based on "indicators of manipulation" published by the International Monetary Fund.

"By including this test in all future trade agreements such as the TPP," he says, "global leaders can adopt trade norms that lead to an even playing field for all member nations, and compel the IMF and WTO to adopt similar practices."

If such a provision is not included, Laffer warns, then "it is reasonable to expect certain countries in the negotiations that have historically and repeatedly manipulated their currencies to continue to do so, with a profound negative impact on the U.S. economy and jobs market."