7

Conclusion

Congress long ago wisely delegated authority over exchange rate policy to the Treasury in cooperation with the Federal Reserve. To develop and execute policy effectively, the United States needs a strong Treasury capable of operating with flexibility in the markets and with broad discretion to cooperate with foreign partners. Extensive delegation, however, carries a reciprocal obligation for transparency, reporting, and accountability. When the US economy was relatively closed to international trade and capital flows, these agencies could often make and execute exchange rate policy outside the spotlight of Congress and national politics. However, globalization has raised the economic and political stakes associated with the external value of the dollar. Openness of the US economy increases the magnitude of the effect of exchange rates on firms and workers, making currency politics more contentious and simultaneously highlighting the importance of accountability in this policy arena.

This study reviews the Treasury's reports to Congress on exchange rate policy—introduced by the Exchange Rates and International Economic Policy Coordination Act of 1988—and Congress's treatment of them. It finds that the accountability process has often not worked well in practice: the coverage of the reports was sometimes incomplete and did not provide a sufficient basis for congressional oversight. Nor has Congress always performed its own role well, holding hearings on less than half of the reports and overlooking important substantive issues. Several recommendations can improve guidance to the Treasury, standards for assessment, and congressional oversight. These include (1) refining the criteria used to determine currency manipulation and writing them into law, (2) supporting the International Monetary Fund's enforcement of its rules on exchange rate policies, (3) clarifying the general objectives of US exchange rate policy, (4) reaffirming the mandate to seek international macroeconomic and currency cooperation, and (5) regularizing multicommittee oversight of exchange rate policy by Congress. Although several recent legislative proposals are motivated by the undervaluation of the Chinese currency, it is important to emphasize the broader purposes of the 1988 Act relating to the overall value of the dollar, its impact on the US economy, and international monetary stability. Any future legislation in this area should reinforce these broader purposes in addition to targeting currency manipulation.

Oversight and accountability of US exchange rate policy is important for reasons that transcend the economic health of the traded goods sector in the United States. Currency manipulation undercuts political support for the international monetary regime and globalization more broadly. By combating currency manipulation and prompting executive decision makers to consider the broad range of economic issues when setting policy with respect to the dollar, the authors of the 1988 Act sought to improve the functioning of the overall international monetary system and the perceived fairness with which that system operates. Anchoring policy more firmly in an effective accountability process would contribute to fairness in the globalization process and to sustaining broad political support for economic liberalization.

Globalization places stress on established institutions of democratic governance within countries. An increasing body of scholarship has been devoted to the impact of international economic integration on the democratic process in advanced, emerging, and developing countries, including the impact on mechanisms of accountability. Among other things, globalization can remove policy action from the reach of legislatures, introducing third parties, and reduce transparency. Confrontation in the United States over Chinese exchange rate policy provides a good example of the impact of the growing importance of the world economy and foreign governments for the evolving relationship between the Congress and executive branch. Failure to address shortcomings in accountability in this policy area could eventually present citizens with a choice between democratic control and economic openness. Strengthening the accountability mechanism, on the other hand, could help make globalization more consistent with democratic governance.