Will Congress Confront 'Currency Manipulation' at Last?

C. Fred Bergsten says that a provision in newly proposed Trade Promotion Authority legislation calling for an end to currency manipulation in future trade pacts is only a modest step forward on the issue.

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Steve Weisman: The newly proposed legislation authorizing President Obama to conduct trade negotiations called "fast-track" has been introduced and proposed by the heads of the Senate Finance Committee and the House Ways and Means Committee. Of particular interest by the Peterson Institute and especially by C. Fred Bergsten, our director emeritus, is the provision on currency manipulation. This is Steve Weisman.

Fred, what does the new legislation say about currency manipulation as a necessary part of any new trade negotiation and agreement?

C. Fred Bergsten: The trade promotion authority [TPA] or fast-track legislation establishes that opposing currency manipulation would be a principal U.S. negotiating objective. The TPA bill enunciates 18 U.S. negotiating objectives. Most of those are traditional. There are two new ones; the one subset of new ones is currency manipulation. So the good news, from my standpoint, is that the bill does establish it as a principal negotiating objective and that would really require the administration to pursue the issue vigorously in both the Trans-Pacific Partnership (TPP), the Transatlantic Trade Investment Partnership (TTIP), and any future trade agreements.

The bad news from my standpoint is that the TPA legislation lists a number of ways through which the administration could pursue the currency manipulation issue. Some of those are sufficiently vague, vapid and flexible that they would enable the administration to weasel its way around the negotiating requirement. So I would toughen that up quite a bit, make it much more specific, as was done in the case of the recent letters by bipartisan majorities of both houses of Congress to the President. But that's in the next step and it's a major step forward in my view that the currency issue has been put front and center on the U.S. trade negotiating menu.

Steve Weisman: What's the expectation on the passage of this legislation? Are there majorities in both houses for it? Would they have to toughen the language in order for it to pass?

C. Fred Bergsten: As I said, bipartisan majorities in both houses of Congress—which is rather rare these days—have written to the President over the last six months insisting that any new trade agreements include "enforceable provisions against currency manipulation." A leadership group in the Congress reiterated that insistence in a letter to the President just earlier this week so it's very high on their list of requirements.

Certainly there are a lot of members, including some key leaders, who would reject the Trans-Pacific Partnership or other trade agreements if they do not include enforceable currency provisions. So I suspect there will be a major battle over this. The administration will want to keep as much flexibility as possible. The Congress will want to toughen the language.

An interesting angle is that the House Democrats led by Congressman Sandy Levin [D-MI] opposed this trade promotion authority bill put in by the other congressional trade leaders on the grounds that it's too soft particularly on this provision—maybe one or two others. So the attack seems to be coming from the side that says it needs to be toughened up, it needs to be more rigorous, and I suspect there will be quite a fight over that.

Steve Weisman: What about the Senate Democrats and also the fact that Senator [Max] Baucus [D-MT] who's now the chairman of the Senate Finance Committee is about to retire anyway?

C. Fred Bergsten: Senator Baucus wants to move the bill quickly so it could happen while he's still there. I don't know if that will happen. And his likely successor, Senator Ron Wyden [D-OR], was not involved in drafting the bill and has not yet staked out a position on it. It's not even clear if he'll support it himself. From earlier indications he is pretty hawkish on this currency issue so he might want to be tougher on that, too.

Interestingly in the Senate, some of the strongest views have been expressed by Republicans. In fact, one of the leaders of the entire congressional effort on currency is Senator Lindsey Graham [R-SC]. He's been engaged in the issue for almost 10 years, took some of the earlier initiatives on it with Senator [Charles] Schumer [D-NY]. I've recently participated in a round table on the issue in the Congress led by Senator Graham and I think he would probably want to toughen it up, too. So there's an interesting coalition of forces here that don't necessarily correlate with the usual politics of economic or foreign policy issues, and I think it's hard at this point to see how it will come out.

I think it is, again, worth underlining, however, that bipartisan majorities in both houses have sent letters insisting on enforceable provisions, enforceable disciplines, as they put it, on the manipulation issue and I suspect that at least a lot of those folks are going to stick with it.

Steve Weisman: What's the administration's view?

C. Fred Bergsten: The administration praised the bill. I'm sure they had in mind the flexibility that's in the currency provision as it's now in there, and that they of course would like to keep it that way. [Treasury] Secretary [Jacob] Lew has testified on the issue as recently as a month ago. He argued that the administration was approaching the currency issue seriously. He acknowledged they took it very seriously. He acknowledged incidentally that trade agreements had to be based on the foundation of market-oriented exchange rate, which we clearly do not have now.

Secretary Lew claimed that the current mechanisms they were using, and he cited the G20 and bilateral negotiations -- that means the strategic and economic dialogue with China -- he asserted that those mechanisms were the right way to go about it. What he of course failed to mentioned is that those mechanisms have been very disappointing and provided grossly inadequate results and have not even been exploited very fully by the administration itself.

The G20 ritually puts out declarations opposing and committing not to participate in currency manipulation while several key members of the G20 manipulate their currencies every day of the week. So that G20 process is the demonstrably pretty ineffectual and I don't think that appealing to that is going to be very convincing as a way to head off putting the currency issue in trade agreements with enforceable provisions to back them up.

Steve Weisman: This legislation granting trade promotion authority is only the opening shot of a long battle. The real issue will arise most concretely when the actual trade agreement comes before Congress. You've written a Policy Brief for the Peterson Institute outlining some different ways that such a provision could be incorporated in the agreement. Do you think that such a provision is essential for the passage of an eventual trade agreement in the Trans-Pacific Partnership?

C. Fred Bergsten: I think it is. The Congress, rightly in my view, has become increasingly frustrated with the failure of both the administration and the international economic system as it's now constructed to come to grips with this issue. We at our research here at the Institute have documented that at least 20 countries are manipulating in a major way. Their intervention on the currency market has averaged a trillion dollars a year for the last decade. That has huge effects on trade flows through them, huge effects on production and jobs. United States is losing very large numbers of jobs every year as a result of all these.

In the face of that, the administration has been pretty ineffective. The institutions that ought to deal with the issue, primarily the International Monetary Fund, which has very firm rules against currency manipulation, have been totally impotent in dealing with the issue and bringing an end to it. So the Congress, now that it has the leverage of having to pass trade bills, I think is going to insist that the administration take a much tougher line. The way the Congress can impose its will is through its authority to approve trade negotiations. I suspect that it will insist that this enforceable discipline language be in those bills and at least a large number of the members will probably reject it otherwise.

Steve Weisman: Thank you, Fred.