COALITION for a PROSPEROUS AMERICA

Phone: 202-688-5145
Email: info@prosperousamerica.org
Website: prosperousamerica.org

November 12, 2021

The Honorable Janet L. Yellen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Ave. NW
Washington, DC 20220

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Secretary Yellen and Chairman Powell:

This letter seeks your support for implementing a new monetary policy tool called a Market Access Charge (MAC) to complement the Fed Funds Rate (FFR). The MAC would make it possible to moderate excessive flows of money into the US economy from abroad much as the Fed Funds Rate makes it possible to moderate the money supply already within the US economy.

Given the high levels of global financialization today**, the MAC is an essential complement to the FFR** because, without it, raising domestic interest rates with the FFR can actually increase the money supply within US financial markets because the increased spreads caused by higher US interest rates trigger capital inflows from abroad.

Introducing the MAC, which would impose a small charge on inflows of foreign money when US trade was deficit, would reduce the effective spread, thus moderating the inflow of unwanted foreign money. The MAC rate would be variable, rising as the trade deficit rose (indicating rising dollar overvaluation) and falling as the trade deficit fell (indicating that the dollar was moving towards a trade-balancing equilibrium exchange rate). Introducing the MAC for use in conjunction with the FFR would break the so-called "Impossible Trinity." With the MAC plus the FFR in place, America could have an independent domestic monetary policy and predictably trending exchange rate stability with no need for quantitative capital controls.

Background

The health and productivity of America's economy has declined seriously since the 1970s. Growth rates that have dropped to about half their previous levels. After about a hundred years of trade surpluses prior to the 1970s, America has suffered unbroken string of trade deficits. As a result, we have lost tens of thousands of US factories and millions of US jobs to countries like China. Furthermore, we are now heavily dependent on others for goods ranging from essential medicines to military components – items vital to our national security and well-being.

This dependency is reflected in our cumulative net trade deficits and thus our net debt to other countries. Up to 1989, other countries owed us more than we owed them, and nearly ten years passed after that before our net debt to foreigners reached 10 percent of GDP. However, our accumulation of net foreign debt has accelerated dramatically since then, recently going from 30 percent to 60 percent of GDP in only seven years – a very significant risk factor.

A series of financial crises driven by bubbles financed in large measure by foreign capital inflows have destroyed businesses, people's jobs, and household savings. The cost of helping America's families and businesses survive these crises while providing public services such as education, infrastructure and defense that are vital to our nation's security and well-being have left the US government painfully short of the resources needed – even to service our national debt, which has grown from 30 percent of GDP in the 1970s to nearly 130 percent today.

For far too many Americans, these developments have destroyed the American Dream of steady growth and widely-shared improvements in prosperity. America's overall income inequality has returned to Robber Baron levels , leading to increased social and political polarization. Those living in the rustbelt areas of America, both urban and rural, have seen entire communities destroyed by foreign competition and a serious increase in "deaths of despair" as people, robbed of their ability to support their families, die from drugs, alcohol and suicide.

These developments over the past 50 years obviously make it very hard if not impossible for the US Treasury to fulfill its stated mission:

> (a) Maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad;
>
> (b) Strengthen national security by combating threats and protecting the integrity of the financial system; and
>
> (c) Manage the U.S. Government's finances and resources effectively.

A key factor driving all of these problems is the excessive flood of foreign capital seeking safe haven and profit in America's financial markets. In moderation, foreign capital can be very productive. However, only a small portion of the flows coming into America today are used to create new factories and other real assets with lasting benefits. Most of the rest goes into financial speculation, contributing to financial instability.

Ironically, the excessive foreign demand for dollars and dollar-based assets and thus the inflows of money from abroad has been driven to a significant degree by using the Fed Funds Rate to control domestic inflation. As US interest rates rise, the spread between foreign and US yields increases. This encourages interest rate arbitrage – carry trade – that brings even more foreign money into America, making excess liquidity and inflation even worse.

Furthermore, excessive foreign demand for dollars and dollar-based assets causes grave damage to the American economy by overvaluing the US dollar. Overvaluation currently acts like a 25-30 percent tax on the selling price of all US goods and a similar subsidy for imports sold in America. As indicated by continuous substantial trade deficits for nearly 50 years, overvaluation makes it very difficult for goods produced in America to compete with imports from abroad or as exports.

Recommendation

Market Access Charge: We would suggest that the excess flows of money into America from abroad could be moderated by implementing a market access charge (MAC) on virtually all foreign capital inflows. As such, it would complement the Fed Funds Rate that moderates domestic capital flows.

MAC Impact on Trade: The MAC charge rate would rise when the foreign capital traffic coming into America began to exceed the capacity of our financial system to absorb it constructively. As with tolls on our express lanes, the MAC rate would decline as foreign capital flowing into America declined towards levels consistent with balanced trade. After trade became balanced – indicating that a trade-balancing equilibrium exchange rate had been attained, the MAC rate would remain at that level until further changes were needed to restore balanced trade.

In short, the externally-focused MAC would provide a vital complement to the internally-focused Fed Funds Rate. This two-pronged approach is urgently needed in today's world where international capital flows have become vastly more important than they were fifty years ago.

MAC Impact on Budget

In addition to balancing US trade, which would give a tremendous boost to America's manufacturing output, job creation, growth, innovation, rates of investment, technological leadership and self-sufficiency, the MAC would generate major benefits for the federal budget. Although the MAC charge would start very low (probably 50 bp), applying this rate to virtually all of capital flooding into America's financial markets would generate hundreds of billions of dollars of additional revenue per year – money that could be used to support high-priority investments in physical and human infrastructure under Biden's Build Back Better programs, support other important government initiatives, service the US public debt in a timely manner, and even to reduce our outstanding debt.

In conclusion, implementing the MAC would make it far easier for the US Treasury to fulfill its key objectives related to maintaining a strong economy, strengthening national security, and managing the U.S. Government’s finances and resources effectively.

We would be more than happy to discuss this proposal with you and your staff, and to provide any additional information desired regarding the MAC including, for example, the draft legislation (which was presented in the U.S. Senate during the previous session of Congress) and an annotated chartbook that provides graphic evidence of the highly negative impact of excess foreign capital inflows over the past 50 years, not only on America's manufacturing sector, but on our entire economy and society.

Please note that all MAC charges would be paid by those seeking to send money from abroad into America. The MAC is not a tax paid by Americans. Paraphrasing what Sen. Russell B. Long said years ago: "Don't tax me. Don't tax thee. Tax that man beyond the sea."

Sincerely,

Zach Mottl, Chairman
Coalition for a Prosperous America

Michael Stumo, CEO
Coalition for a Prosperous America