COALITION for a PROSPEROUS AMERICA

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October 13, 2022

The Honorable Janet Yellen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

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

The Honorable Sherrod Brown
Chairman
U.S. Senate Committee on Banking,
Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Patrick Toomey
Ranking Member
U.S. Senate Committee on Banking,
Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Maxine Waters
Chairwoman
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
U.S. House Committee on Financial Services
2004 Rayburn House Office Building
Washington, DC 20515

Re: Addressing the destructive rise of the U.S. dollar

Dear Secretary Powell, Chair Powell, Chairman Brown, Ranking Member Toomey, Chairwoman Waters, and Ranking Member McHenry:

We ask that you address the destructive rise in the exchange value of the U.S. dollar as soon as possible. Our domestic manufacturing and agricultural producer members are losing competitiveness and the opportunity to increase scale and employment. Capital flow and exchange rate management should be reconsidered as important tools to address the deterioration of America's global competitiveness, detrimental impact to the economies of developing, and the exacerbation of global external imbalances. A second Plaza Accord and a variable charge on capital inflows can help stabilize both the U.S. and global economy now and in the future.

The rise of the dollar this year is well known, but its damage to U.S. industry and employment, as well as the stress it puts on many emerging market nations, is not yet fully appreciated. In the first nine months of this year, the dollar has risen by 15.7% against the euro, 21.3% against the pound sterling, and an incredible 25.6% against the Japanese yen. Against the broad basket of currencies, it has risen by 10.7%. These large increases come on top of a dollar that was already overvalued by wide agreement. Robin Brooks of the IIF recently stated last month that in his view the dollar was 11.2% overvalued. Our own economic work has estimated the dollar was some 17% overvalued last year, which would suggest its current overvaluation is now close to 30%.[1]

[1] https://prosperousamerica.org/dollar-hits-new-highs-wreaking-havoc-on-us-world-economy/

Currency overvaluation on this scale gifts a huge competitive advantage to foreign producers sending imports into the U.S. market. It also hampers our exporters. This persistent, and worsening, currency overvaluation is a prime cause of our record trade deficits. Last year, the U.S. set records with a trade deficit of $845 billion, a goods trade deficit of $1.09 trillion, and a current account deficit of $846 billion. As the impact of the 2022 dollar appreciation impacts trade flows over the next several years, it is highly likely that all three deficits will continue to worsen, with dire consequences for goods production and employment in all industries impacted by imports or exports. More broadly, the prospect of a trillion-dollar current account deficit poses a serious risk to destabilizing financial markets with consequences that could even destabilize the so-called "King Dollar."

U.S. manufacturers are already struggling to compete against their foreign competitors, all of which benefit from the overvalued dollar. Wall Street analysts have forecasted profit declines in the third quarter (ending Sept. 30th) for major U.S. manufacturers including 3M, General Electric, and Carrier Global. U.S. software maker Salesforce has said the rising dollar will wipe $800 million off the company's profits this year. All these profit declines will ultimately lead to lost jobs and less money for investment in the future.

The consequences for the global economy are equally serious. Sri Lanka is already in default. Other nations in Asia, Africa, and Latin America are struggling with the challenge of paying for dollar-denominated imports with exports which are often in other, weaker currencies. Egypt has had to increase its government subsidy for essential imports, largely wheat, by 12% or $500 million. Ghana's government is spending an additional $22 million on subsidies for its people to buy heating oil, which put the government further in debt. Ghana's national debt is now 80% of its GDP, a dangerous level which explains why the yield on its government bonds has reached 35%. Ghana, along with Egypt and Pakistan, has approached the IMF for a bailout package. The economic carnage in developing countries is a major reason why the IMF cut its global growth forecast for 2023 in its recently published World Economic Outlook.

In Europe, high inflation and austerity programs are widespread as these nations bear the burden of triple-digit percentage increases in the cost of dollar-denominated oil and gas imports. Inflation has hit 10% in Britain, with the cost of energy as the main driver. The German government has proposed spending $65 billion to help households pay the larger heating and electricity bills. Balance of payments crises, austerity programs, and, in some cases, default will inevitably lead to political instability and potentially lead to governments that become hostile to free market capitalism and the United States.

Now is the time for action to restrain the dollar and manage it down to a more competitive and economically justifiable level. We humbly submit that this is the moment for the Biden administration to lead a group of like-minded nations in a coordinated intervention program to bring the dollar down to a more competitive level and establish reasonable floors under the currencies of our major trading partners. This would provide relief to thousands of U.S. exporters and domestic producers struggling to compete with imports. It would throw a lifeline to dozens of small emerging market nations trying to pay for their imports. It would enable the Federal Reserve to manage short-term monetary policy with less concern for the impact it might have on other nations. By getting the dollar to a competitive level even while the Fed raises interest rates,

it would reduce the impact of economic contraction on the real economy of production and jobs. Finally, such a policy move would establish the Biden administration as a global leader capable of leading friends and allies to courageous, innovative solutions to global economic challenges. Such a policy would likely be labeled "Plaza 2" by the media, and would receive the same admiring reception that the original 1985 Plaza Agreement received at home and abroad. Foreign leaders have already spoken out about the damage the overvalued dollar is wreaking upon their domestic economies.

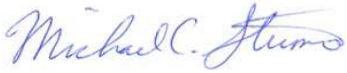
We would also propose you adopt the Market Access Charge (MAC), a long-term solution to the problem of persistent dollar overvaluation. This plan, introduced by Senators Baldwin and Hawley in 2019, would implement a small variable charge on incoming capital inflows from foreign investors. This charge, set and managed by the Federal Reserve, would target reducing such flows so as to manage the dollar to a competitive level and hold it there. Other countries should also consider a MAC in a joint effort to end the destructive imbalances caused by the global tide of capital flows. The MAC would enable the United States to achieve current account balance and maintain it, which would stimulate production and employment in domestic industries and exporters. It would be a permanent solution to the currency problems that have beset the United States almost constantly since floating began in 1973.

We cannot stress enough that the consequences of the rapid appreciation in the dollar's value are only beginning to be felt in industrial America and are set to become much more severe in the next year or two. We urge you to take action now. We believe action in the form of an immediate and coordinated intervention plan accompanied by a long-term reform instituting a MAC would be warmly greeted by our allies, by the financial markets, and by American workers and voters.

Thank you.

Sincerely,

Zach Mottl, Chairman
Coalition for a Prosperous America



Michael Stumo, CEO
Coalition for a Prosperous America