Fix the Dollar to Build Back Better

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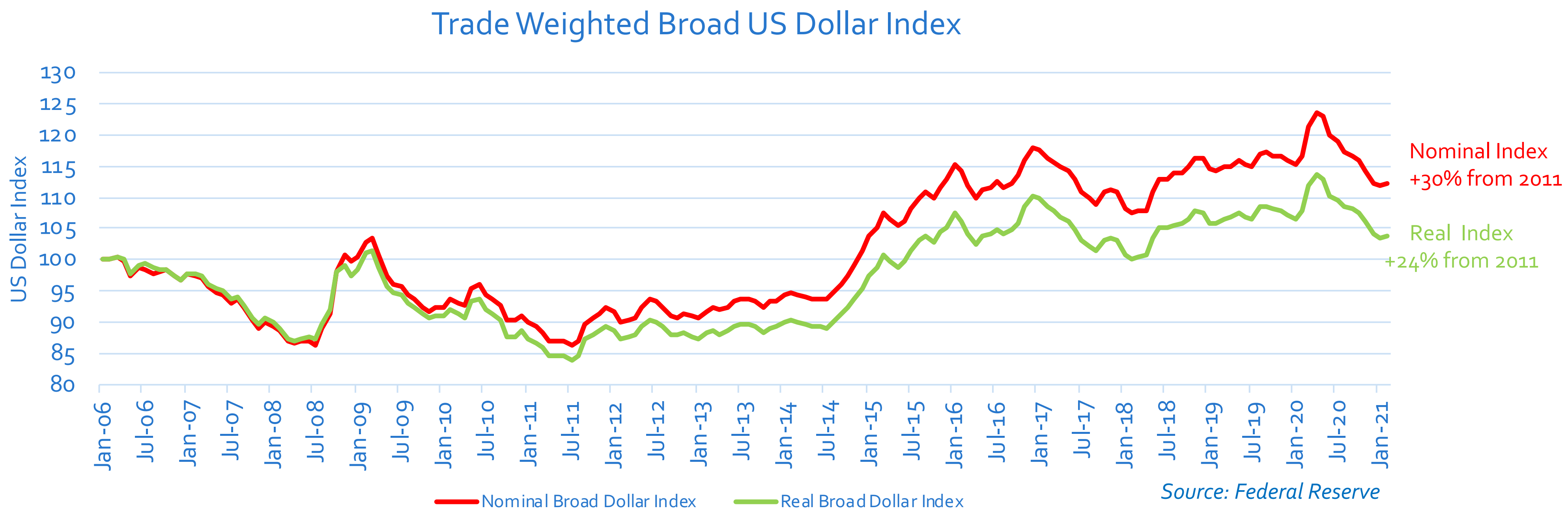
Misaligned Dollar and Exchange Rate Management

- Basic Principle: Exchange rates should move to reduce/eliminate current account imbalances
- Market failure: Persistently overvalued dollar drives 45 years of trade deficits
- Government role: Exchange rate management using capital inflow management tool
- Market Access Charge: Small variable charge on capital inflows to re-align dollar

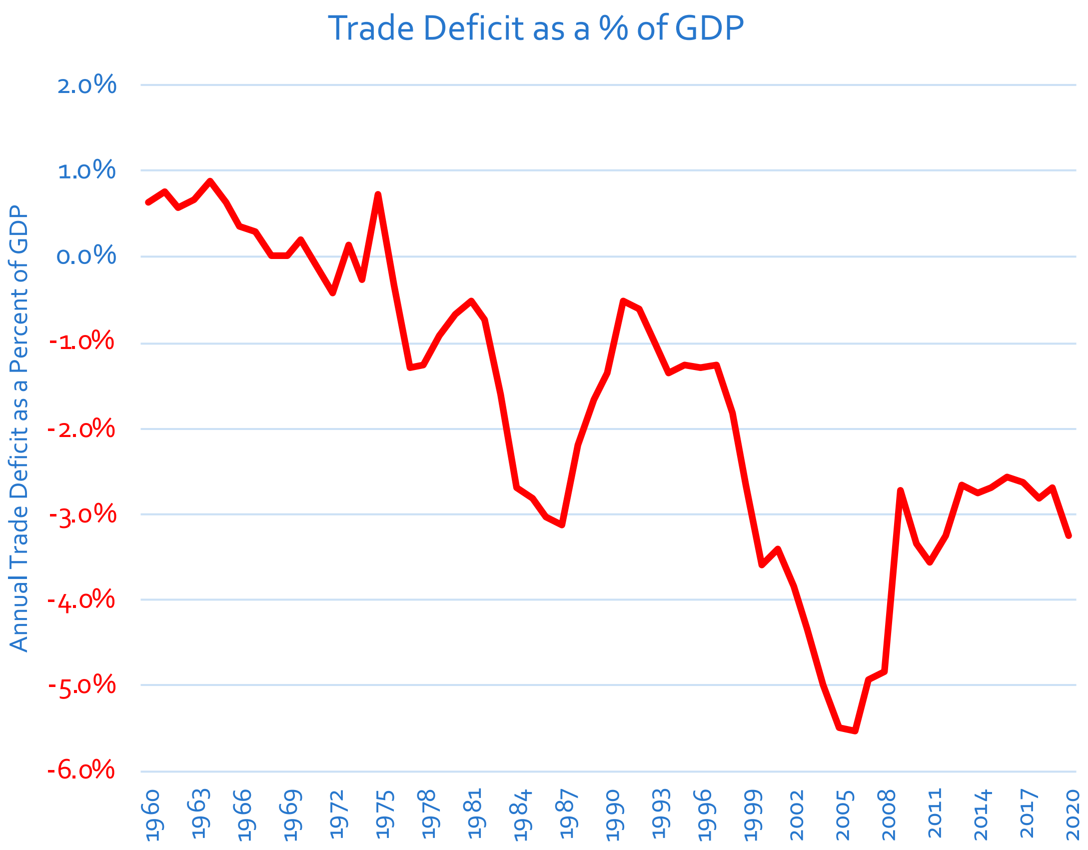
Market Failure: US Dollar Fails to Decline to Equilibrate Trade Balance



- The dollar exchange rate continues trending upwards, driving global imbalances, the US trade deficit and erosion of our productive economy

Fixing the Dollar Will Create 4M Jobs

- Overvalued/misaligned dollar:
  - Increases imports/depresses exports
  - Erodes manufacturing
  - Reduces agricultural prices, hurting farmers
- CPA/Federal Reserve model forecasts economic benefits of realigning the dollar by 26% to balance current account
  - Reduces $600B trade deficit to zero (balanced trade)
  - Reduces imports as share of domestic market
  - Stimulates exports
  - 4M jobs created over 5 years
  - US economy becomes 5.9% larger than baseline growth
  - Up to $3 trillion revenue over 10 years from foreign financial traders



Source: US Bureau of Economic Analysis

Job Creation Impact of Realigned Dollar

- 3.97M jobs created over five years
- Manufacturing benefits most, 1.26M additional jobs (+11%)
- All sectors add jobs, tradable sectors most impacted

Additional Employment from 26.4% Dollar Devaluation by Sector						
Category	Units	2021	2023	2024	2025	2026
Manufacturing	Thousands	11,505	323.4	629.3	937.4	1259.2
Construction	Thousands	9,199	12.6	5.7	10.8	42.9
Natural Resource	Thousands	2079	29.4	58.6	90.5	127.0
Retail and Wholesale	Thousands	23,210	6.0	3.1	20.8	63.3
Transportation and Utilities	Thousands	8,878	80.6	162.6	257.9	370.5
Finance Insurance & Real Estate	Thousands	17,264	83.9	160.5	259.9	387.9
Services	Thousands	81,348	268.2	502.2	802.1	1186.2
All Industries	Thousands	149,830	911	1744	2741	3970

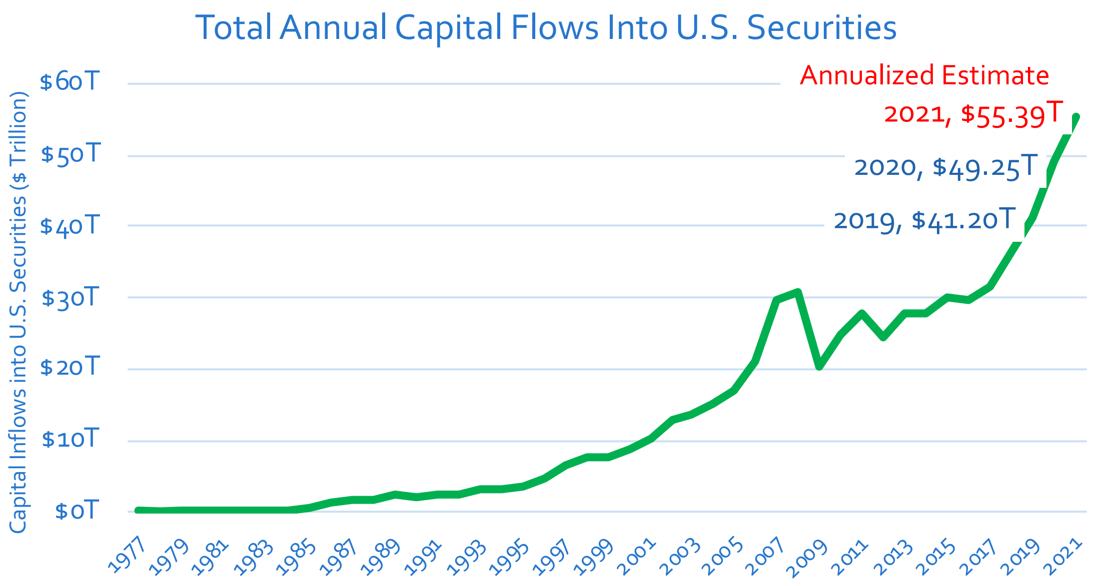
Policy Solution:
Capital Flow Management to Realign the Dollar Exchange Rate

- Market Access Charge (MAC) is a variable rate, one-time transaction fee paid by foreigners when they purchase US financial assets or real assets
- MAC rate is set and adjusted by Federal Reserve Board to moderate inflows and achieve and maintain a current account balance within 5 years
- Proposed in 2019 by the Baldwin-Hawley *Competitive Dollar for Jobs & Prosperity Act* (S.2357)
- Treasury collects the charge and collects estimated revenue of $3T over 10 years from foreign investors

MAC Will Generate Up To $3 Trillion For US Treasury

- Model shows 5% MAC brings in up to $672B/year of MAC revenue to Treasury at current inflow volumes
- But we assume inflows will fall by ~25%
- Due to psychological impact on markets, MAC of 2% could suffice to deliver needed realignment, so revenue could be ~$300B/year or $3T over ten years
- Additional GDP boosts tax revenue by further $160B-$250B/year
- Bottom line: MAC pays full cost of $2T infrastructure program

	MAC Revenue, Annual ($B)	As % of Total Govt Revenue (2020 - $3.47T)
Baseline	NA	
MAC 1%	$135B	3.9%
MAC 3%	$405B	12%
MAC 5%	$672B	19%



Summary and Conclusions

1. Overvalued dollar costs US economy 4 million jobs, deindustrialization of US economy, depressed cities & towns, and lost exports
2. Dollar overvaluation caused by excessive capital inflows
3. Realigning dollar by 26.4% would balance trade, AND
4. Boost GDP by $1.62 trillion (5.9%) over five years, AND
5. Create 3.9 million additional jobs including 1.3 million manufacturing jobs
6. MAC of 2%-5% would deliver balanced trade & economic boost
7. Negligible effect on US interest rates (12 basis point increase)
8. Negligible effect on inflation (22 basis points)
9. Generate $3 trillion of additional revenue for US Treasury over ten years

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Thank You

Negligible Impact on Interest Rates/Debt Service

- US Treasury debt sales no longer depend on foreign purchasers
- Fed model shows interest rates rise by a negligible 14 basis points (bps)
- Interest rate (already at record lows) on US debt raises by 16.9 bps
  - US debt service costs rise by only $45.2B (9.5%)

Table 3 - Average Interest Rate on Federal Debt and the Impact of 1%, 3%, and 5% MAC)

	CBO Average Interest Rate on Debt Held by the Public	Average. Interest Rate with 1% MAC	Average. Interest Rate with 3% MAC	Average. Interest Rate with 5% MAC
2020	2.400%	2.400%	2.400%	2.400%
2021	2.300%	2.312%	2.337%	2.363%
2022	2.300%	2.324%	2.376%	2.434%
2023	2.400%	2.428%	2.493%	2.569%
2024	2.500%	2.523%	2.583%	2.660%
2025	2.600%	2.615%	2.661%	2.727%

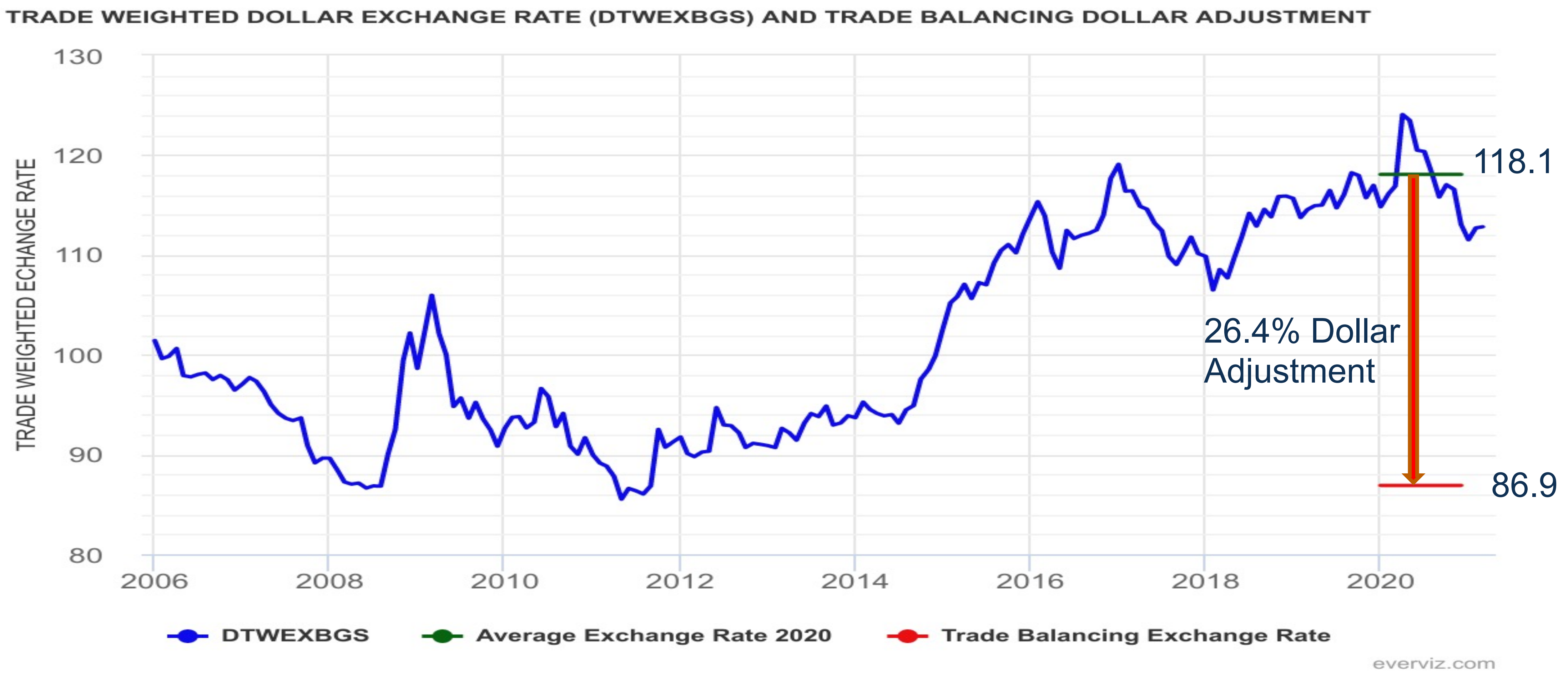
Inflation Increases Less Than 0.25% a Year

FRB/US Model Results Consumer Price Index (Baseline, 1%, 2%, 3%, and 5% MAC)							
	2020Q3 (MAC Initiated)	2020Q4	2021Q4	2022Q4	2023Q4	2024Q4	2025Q4
Consumer Price Index Baseline	261.75	263.23	269.36	275.62	282.03	288.59	295.30
YOY Change (%)		0.6%	2.3%	2.3%	2.3%	2.3%	2.3%
Consumer Price Index 1% MAC	261.75	263.24	269.41	275.70	282.11	288.67	295.39
Change (%) Relative to Baseline		0.00%	0.02%	0.03%	0.03%	0.03%	0.03%
Consumer Price Index 3% MAC	261.75	263.26	269.52	275.86	282.31	288.90	295.63
Change (%) Relative to Baseline		0.01%	0.06%	0.09%	0.10%	0.11%	0.11%
Consumer Price Index 5% MAC	261.75	263.28	269.64	276.06	282.56	289.19	295.96
Change (%) Relative to Baseline		0.02%	0.11%	0.16%	0.19%	0.21%	0.22%

Bipartisan Support for Policy Action for a Competitive Dollar

- Democrat Economists
  - Jared Bernstein (Washington Post, Aug. 2014)
    - "Dethroning `King Dollar' would be easier than people think. America could enforce rules to prevent other countries from accumulating too much of our currency."
- Institutional Economists
  - IMF "Institutional View" on Capital Flows and CFM Tools (Nov. 14, 2012)
    - "Surges of inflows…can lead to asset price volatility and bubbles, rapid exchange rate appreciation, credit booms and unsustainable drops in risk premia, distortions in money markets, and disruptions in monetary policy transmission. Over time, these problems can lead to a build-up in balance sheet and other vulnerabilities."
  - Joseph Gagnon, Peterson Institute (Nov. 2020)
    - "The main cause of the deficit is a secular overvaluation of the dollar, driven by excessive financial flows into dollar assets from foreign official and private investors…The MAC would be a classic Main Street, as opposed to Wall Street, policy choice, with benefits spread widely throughout the economy."

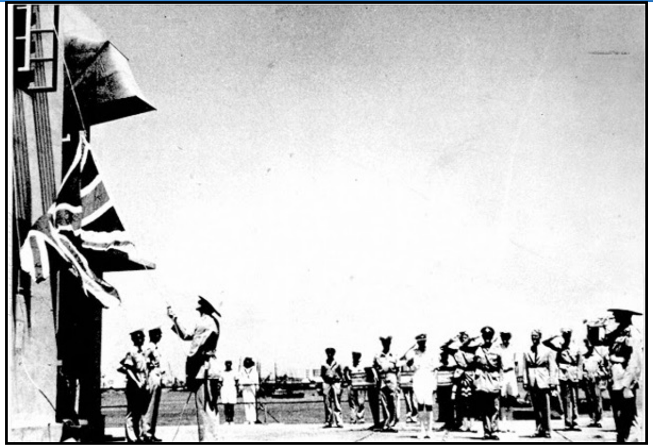
26.4% Trade Weighted Dollar Adjustment to Achieve Balanced Trade



Final Thought:
Overvalued Currency Played Key Role in Decline of an Empire

- Return to gold standard (1925) at 10% overvaluation led to decline in key industries: coal, steel, & shipbuilding
- Unemployment paralyzed Britain with General Strike (1926)
- Repeated sterling crises 1947-1967 caused political/economic crises
- October 1956: The End of the British Empire
  - Pres. Eisenhower threatens to cancel US loans to UK
  - Prime Minister Anthony Eden abandons Suez invasion
  - Eden resigns, Britain begins closing naval bases worldwide, granting independence to colonies in Asia, Africa, and Caribbean

US Net International Investment Position today: -$13 trillion

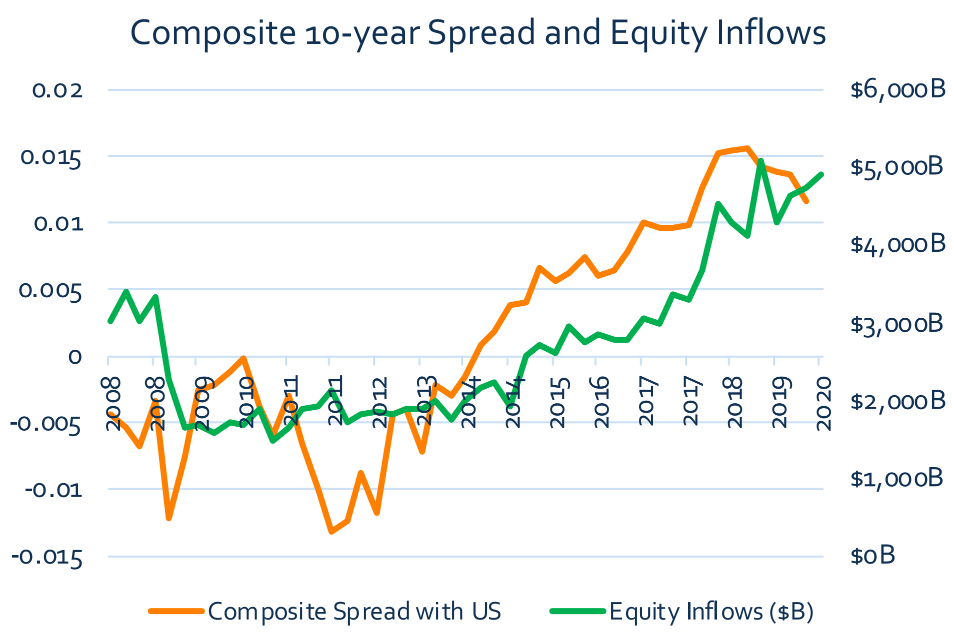


Lowering the Union Jack, Haifa, 1948

Using Market Access Charge to Realign the Dollar

- MAC is one-time transaction fee on foreigner purchase of US assets
- CPA modeled impact of MAC on foreign inflows & US dollar value

$$Y_t = \$49B + \mathbf{\$225B}\ X1_t + \$4{,}400B\ X2_t - \$6{,}8449B\ X3_t$$
$$\quad (0.77) \quad (2.38) \quad (0.79) \quad (-0.51)$$



For every 1% change in spread between US 10-year Interest rate and the 10-year composite interest rate, Equity inflows change by $225B per quarter.