



FAIR CURRENCY COALITION

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FACT OF THE WEEK (October 20, 2009)

TREASURY'S LATEST REPORT TO CONGRESS; NEGOTIATING WITH OURSELVES

Last week, as required by the 1988 Omnibus Trade and Competitiveness Act, the U.S. Treasury Department issued its latest semiannual report on foreign currency practices; and once again, U.S. Treasury Secretary Timothy Geithner met deadline for delivering the report, a break with past practice. In all other respects, though, the document seems unremarkable. Continuing the practice started by former Treasury Secretary John Snow, the latest report gives details of the global imbalance and encourages the surplus states – especially China – to revalue their currencies. As in the past, it stops short of formally citing any country for its practices. It establishes the urgency of the problem, but provides no plan of action to address it.

A National Association of Manufacturers (NAM) spokesman lamented the inconclusive report as a “missed opportunity.” On the contrary, the issuance of this document has become a regular non-event. No amount of tough words and dire warnings is likely to have any effect on mercantilist trading partners. This conclusion is based on three considerations:

- The statute itself authorizes no sanctions. It provides only that Treasury *may* in its discretion initiate bilateral or multilateral “negotiations” with the country or countries it has cited.
- There is no effective recourse to the International Monetary Fund (IMF), either. IMF Article 4 clearly obliges all members to avoid using exchange rates to prevent the correction of unbalanced trade and payments flows. In other words, when official reserves rise beyond what is needed to ensure a country’s international payments, its currency should be allowed to strengthen to reduce that imbalance. The IMF can reason, cajole and beg, but it cannot compel or even induce good behavior. Thus, the IMF is as lacking in enforcement powers as the Treasury, and the IMF’s record of futility is about as long.
- Until and unless Congress grants new authority to the executive branch, we will be locked into a pattern of negotiating with ourselves.

Negotiating without leverage is mere wishful thinking. Only by treating currency as the export subsidy that it is can our negotiators gain the leverage needed to end this problem by diplomatic means. Empty-handed diplomacy has been tried repeatedly and failed every time. It’s time for a change in approach. The Congress should empower the government by passing H.R. 2378 and S. 1027, the Currency Reform for Fair Trade Act, without further delay.

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