US bill would tax 'currency manipulators'

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Recent foreign exchange swings fed by concerns over the impact on American competitiveness.

Foreign products from places such as China and Japan will be subject to punitive US import taxes if their governments are found guilty of currency manipulation by Washington under legislation proposed on Tuesday.

The measures contained in bipartisan bills presented in both houses of Congress come amid an escalation in rhetoric in Washington surrounding recent foreign exchange swings fed by concerns over the impact on American competitiveness and the US recovery of a rising dollar.

"Few actions by foreign governments do more to disrupt free and fair trade and to harm US job growth than currency manipulation," said Sander Levin, the veteran Democrat from Michigan leading the push in the lower House of Representatives. "Currency manipulation has had a major impact on millions of American middle class jobs. We are sending an unequivocal message today that action is needed to rein in this abuse."

A majority of both houses of Congress have called for the US to introduce binding currency provisions into trade agreements being negotiated by Washington including the Trans-Pacific Partnership with Japan and 10 other countries nearing completion.

But that push, backed heavily by the US auto industry, has been resisted by the White House and the US Treasury in particular that insists that forums such as the G20 and institutions such as the International Monetary Fund are better suited to deal with currency matters than trade agreements.

What chance the proposed legislation has of becoming law is unclear. A majority of members of both houses in Congress have called for the inclusion of provisions to deter currency manipulation in US trade agreements. But the administration has resisted those calls as well as previous bids to use import taxes to fight currency manipulation.

Jack Lew, the US Treasury secretary, raised US concerns about currency manipulation with his G20 counterparts in meetings in Istanbul on Monday and Tuesday. Mr Lew had "strongly emphasised . . . that we are highly focused on ensuring that US workers and firms play on a level playing field and no country should use their exchange rate to increase exports," Reuters quoted a US official as saying.

If passed by Congress and signed by President Barack Obama, the legislation introduced on Tuesday would allow US industries to lobby Washington to impose countervailing duties on goods from countries that met tests for currency manipulation. Similar legislation passed the House of Representatives in 2010 and the Senate in 2011 though it has never been made it into law.

However, Mr Levin, a genial veteran of Congress who has spent decades fighting against alleged currency manipulation by countries such as Japan on behalf of the US auto industry, said the proposed measures would only apply to direct intervention in currency markets by governments.

They would explicitly not apply to any currency swings linked to central bank's decisions on monetary policy, raising questions about just how relevant the proposed legislation would be today.

The recent surge in the dollar and declines in currencies such as the euro and the yen have been attributed largely to the introduction of unorthodox monetary measures by central banks. The US faced its own accusations of feeding a "currency war" in the wake of the 2008 global financial crisis as a result of the Federal Reserve's massive quantitative easing programme.

The recent moves by some central banks, aimed largely at stimulating domestic growth, have been explicitly cheered by some governments eager to see their currencies weaken to benefit exporters.

Currencies against the dollar

$ per currency (rebased)

Source: Thomson Reuters Datastream

Matteo Renzi, Italy's prime minister, said last month that he dreamt of "parity" between the US dollar and the euro and the benefits it would provide to Italian exporters.

Fred Bergsten, the former head of the Peterson Institute and a longstanding proponent of more aggressive US currency policy, said the US legislation would probably not apply to any countries today.

But he said past intervention in foreign exchange markets by China and Japan to weaken their currencies was no different than other forms of export subsidies now subject to countervailing duties and ought to be targeted more forcefully by the US.

"Right at the moment it is not clear whether any of the traditional manipulators would be indicted under these rules," Mr Bergsten told reporters during a conference call with Mr Levin to introduce the legislation. However, he added: "We know [currency manipulation] will come back. It always comes back."