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Congress, Treasury, and the Accountability of Exchange Rate Policy: How the 1988 Trade Act Should Be Reformed

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Abstract: The controversy within the United States over Chinese exchange rate policy has generated a series of legislative proposals to restrict the discretion of the Treasury Department in determining currency manipulation and to reform the department's accountability to Congress. This paper reviews Treasury's reports to Congress on exchange rate policy—introduced by the 1988 Trade Act—and Congress's treatment of them. It finds that the accountability process has often not worked well in practice: The reports provide only a partial basis for effective congressional oversight. For its part, Congress held hearings on less than half of the reports and overlooked some important substantive issues. Several recommendations can improve guidance to the Treasury, standards for assessment, and congressional oversight. These include (1) refining the criteria used to determine currency manipulation and writing them into law, (2) explicitly harnessing US decisions on manipulation to the International Monetary Fund's rules on exchange rates, (3) clarifying the general objectives of US exchange rate policy, (4) reaffirming the mandate to seek international macroeconomic and currency cooperation, (5) requiring Treasury to lead an executivewide policy review, and (6) institutionalizing multicommittee oversight of exchange rate policy by Congress. Legislators should strengthen reporting and oversight of broader exchange rate policy in addition to strengthening the provisions targeting manipulation.

JEL codes: F31, F33, F42, F51, F53

Keywords: Exchange rate policy, currency manipulation, accountability, congressional oversight, China,Treasury, International Monetary Fund

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INTRODUCTION

Exchange rate policy has once again become politicized in the US Congress. A periodic feature of US international economic policies, politicization in this instance has been driven largely by objections to China's exchange rate policy. Competition from China has placed pressure on US producers, who have complained to members of Congress that the Chinese currency, the renminbi, is substantially undervalued. The US Treasury Department meanwhile has refused to cite China in its semiannual reports to Congress as a country that "manipulates" its currency, despite unprecedented amounts of foreign exchange intervention. The Secretary of the Treasury, Henry M. Paulson, Jr. prefers a diplomatic approach to China in the form of his Strategic Economic Dialogue. Frustrated by the modest results of these discussions, several members of Congress have proposed legislation that, if adopted, would reform the process by which Treasury identifies and responds to currency manipulation and could impose trade restrictions to compensate for undervaluation.

The relationship between Congress and the executive, in particular the Treasury Department, lies at the heart of the United States' response to the economic challenge from China. The Exchange Rates and International Economic Policy Coordination Act of 1988, an important component of the large omnibus trade act of that year, partly defined this relationship with respect to exchange rates. The act mandated Treasury to report to Congress and the secretary to testify to follow-up hearings by the banking committees of the House and Senate. Proponents intended the act to improve congressional oversight and Treasury's accountability to the legislature over exchange rate policy. Congress thus involved itself in exchange rate policy more deeply than it had in prior decades and more deeply than the legislatures of most, if not all, of the other key currency countries.

Accountability in exchange rate policy is important for two reasons. First, it is important to keep policies connected to the democratic process in the United States, both to sustain broad political support for policy and to redirect policies when they deviate in the extreme from broadly held preferences. Second, the general and specific provisions of the 1988 act bear heavily on the effective functioning and legitimate governance of the international economic system as a whole.

Three changes in the fundamental features of the United States and the global economy since the mid-1980s reinforce the importance of accountability and oversight in this policy area. First, the US economy is considerably more open to international trade than it was in the mid-1980s and far more open than at the outset of the postwar period. Exports plus imports relative to GDP was 9.3 percent in 1950, 18.4 percent in 1987, and 26.7 percent in 2005.[1] With a general increase in capital mobility, the US economy is also more open to international capital flows than in the early decades of the postwar

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1. US Bureau of Economic Analysis data as reported in the 2007 *Economic Report of the President.*

period. Greater openness increases the magnitude of the macroeconomic and distributive effects of changes in the external value of the dollar. Second, with the rise of numerous emerging markets and more in the queue, the number and diversity of countries whose policies bear on US economic performance have risen apace. Third, within US politics, the partisanship of international economic policy has increased, and splits in party control of the Congress and executive create friction between the branches (see Destler 2005).

In light of these fundamental changes, and more immediately the disputes over Treasury's approach in its reports and numerous legislative proposals to change oversight, the time is ripe for an assessment of the 1988 act and the reporting process that it created. How have the act and the reporting process met key tests of democratic accountability in practice? Has Treasury provided transparency sufficient for Congress to judge whether the department has met the objectives of this and other relevant legislation? Has Congress provided appropriate oversight? Has the process contributed to better policy and, if not, what reforms would be likely to improve policy outcomes? This paper addresses these questions but first reviews the foundations of democratic accountability, origins of the 1988 legislation, and content of the Treasury reports.

Before proceeding, it would be worth making the key premises of the paper explicit. First, the paper departs from the fundamental assertion that the US Congress is the ultimate source of authority in exchange rate policy. It has delegated authority to the Treasury, and to the Federal Reserve, though it properly reserves the right to establish objectives for policy and exercise oversight. This premise is developed further in the following section. Second, although the exchange rate depends largely on macroeconomic policies, foreign and domestic, under certain circumstances having a policy toward the external value of the currency is justified, even necessary. This second premise is the subject of an extensive economics literature, reviews of which I leave to other papers. Third, Chinese authorities' intervention in the foreign exchange market has kept the renminbi substantially undervalued, prevented a desirable adjustment of current account imbalances, and constitutes "manipulation." A substantial further reduction in the US federal budget deficit is also desirable, but the persistence of US fiscal deficits does not diminish the desirability of renminbi appreciation. This third premise rests substantially on the work of others, notably some of my colleagues at the Peterson Institute, as cited below.

FOUNDATIONS OF DEMOCRATIC ACCOUNTABILITY

How should we assess the quality of accountability in exchange rate policy? What litmus tests should be administered? What standards apply?

Definition and Prerequisites

"Accountability," as Grant and Keohane (2005, 29) define the term, "implies that some actors have the right to hold other actors to a set of standards, to judge whether they have fulfilled their responsibilities in light of these standards, and to impose sanctions if they determine that these responsibilities have not been met." Accountability has several prerequisites: (1) general acceptance (legitimacy) of the right of one actor (Treasury in the case of exchange rate policy) to exercise particular authorities and that of the other (Congress) to hold it to account, (2) standards for assessing whether the power wielder has properly discharged his or her responsibilities, and (3) sufficient transparency and information to assess whether standards have been fulfilled.

The first prerequisite is satisfied in the United States. The US Constitution gives Congress the power "[t]o coin money, regulate the value thereof, and of foreign coin. . ." (Article I, section 8). So Congress delegates the authorities of both the Federal Reserve and Treasury on monetary and exchange rate policies, and both bureaucracies are formally accountable to the legislature across the full range of their responsibilities. The Treasury and Federal Reserve prefer to make and administer exchange rate policy behind closed doors. Together they constitute the core of a policymaking system that was historically closed to outside purview and remains veiled relative to many other policy areas (see, for example, Destler and Henning 1989). Treasuries and central banks dominate this policy domain in most other countries as well. Some analysts would prefer that legislatures recuse themselves from currency matters (discussed below). But confidentiality with respect to market operations, which should be preserved, can be distinguished from oversight of these agencies with respect to the basic objectives of policy. Congress's constitutional responsibility to oversee the Treasury and Federal Reserve within the US system is beyond dispute. Its oversight powers are reinforced by its control over grants of authority, appropriations, and appointments to key posts in these agencies—although it has not always used these tools.

The second and third prerequisites are less complete, however.

Consider the standards for assessment. In most countries, national legislation that establishes the authorities of the finance ministry and central bank focuses largely on their domestic tasks; their roles in exchange rate policy are usually not completely defined. Under the Bretton Woods regime, the Treasury was directed to maintain the par value for the dollar. After the shift to flexible exchange rates, Treasury was enjoined to use its Exchange Stabilization Fund (ESF) simply in ways that were "[c]onsistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates" (31 USC 5302b). The 1988 act mandated Treasury to pursue "international economic coordination" where possible and to review the currency practices of trading partners, identify instances of exchange rate manipulation, and pursue negotiations to halt manipulation

(discussed in detail below). No general statement in legislation sets overall objectives for exchange rate policy and its relationship to domestic monetary and fiscal policies. Therefore, while these mandates set down some specific markers by which Congress can judge Treasury's performance, they are partial, vague in come critical cases, and collectively incomplete.

The reporting provisions of the 1988 act addressed the third prerequisite—sufficient transparency to hold the authorized officials to account. In the act, Treasury is required to discuss exchange rate policy within the context of the broader macroeconomic environment and in light of global current account balances and capital movements. The department is directed to provide information and analysis on a formidable list of policy and financial topics. Its reports are evaluated in the sections below. Congress is by no means limited to information provided by the Treasury; it can of course also draw on information from private-sector financial analysts, independent policy analysts, and private-sector lobbying groups, among other sources, which is plentiful. Information regarding policy, policy intentions, and international negotiations, however, is more closely held within the official sector. On this dimension in particular, Congress has not always had sufficient information to exercise effective oversight.

The US accountability mechanism with respect to exchange rate policy is more highly developed than that of the euro area. However, though euro area exchange rate policy is subject to some broad objectives laid down by the European treaties (not to interfere with domestic price stability being the most important), the European Parliament's standing as the institution to hold the monetary authorities to account is weak, the relationship between the European Central Bank (ECB) and the Eurogroup on exchange rate policy is contentious, and these institutions are not subject to any reporting requirement remotely equivalent to the 1988 trade act or subject to oversight that is backed by a capacity to impose sanctions if standards have not been met (Henning 2006 and 2007). So American accountability advocates cannot take much comfort from this comparison.

Debate over the Role of Congress

A normative debate exists over the appropriate degree of "democratization" of exchange rate policy. Several economists are deeply skeptical that Congress can play a constructive role in this policy domain. For example, Dominguez and Frankel (1993, 50–53, 137–38), while advocating broader consultation within the executive, oppose a broader role for Congress and more generally a "democratized" exchange rate policy. A broadening of the exchange rate policy process, they fear, could some day induce policymakers to push the exchange rate away from equilibrium rather than toward it. More recently, Frankel and Wei (2007) also are implicitly skeptical of Congress—which they portray as preoccupied with the bilateral trade effects of currency values as opposed to "legitimate economic variables" and

absolve the Treasury of protectionism when it has cited countries for manipulation in the past, on the proposition that it was acting under pressure from Congress. Frankel and Wei note with approval that the White House considers a broader set of effects when making policy than does Congress.

Destler and Henning (1989), by contrast, argue that Congress played a constructive role during the mid-1980s, intermediating between private-sector activism and executive neglect, and helped to produce a needed shift in exchange rate policy on the part of the second Reagan administration. We recommended broadening intraexecutive deliberations over the exchange rate, strengthening the role of Congress in setting broad international economic objectives, and institutionalizing and legitimating private-sector advice to the Treasury. In this paper, I extend these recommendations, arguing that the experience since the mid-1980s reinforces our case for strengthening the role of Congress in setting objectives and overseeing executive performance in light of these objectives.

Congress has not always behaved consistently in this policy domain. It has sometimes resisted quota increases for the International Monetary Fund (IMF) and has imposed multiple, particularistic mandates for the US executive director but later regretted that the institution was not more aggressive against countries that manipulate currencies. Nonetheless, by and large, Congress has been circumspect on exchange rate policy, limiting its own role in this domain to defining reasonable objectives, requiring some degree of transparency, and not encroaching on Treasury's operational responsibilities.

To some extent, this disagreement might reflect differences between the preoccupation of economists with policy optimization, and sometimes a professional preference for technocratic management, and the preoccupation of political scientists with institutional governance, democracy, and accountability. These contrasting approaches will color the debate about delegation, accountability, and oversight as the reform discussion evolves.

Legitimate Interest of Treasury

Treasury holds the "lead" among executive agencies and the Federal Reserve in this policy domain. The secretary is the chief financial officer of the US government and represents it in the governing boards of international financial institutions such as the IMF and World Bank. The secretary holds sole discretion over the use of the ESF and is typically the only cabinet member allowed to make public pronouncements on the exchange rate. Senior Treasury officials conduct delicate confidential negotiations with foreign counterparts, such as within the G-7, in concert with Federal Reserve officials. The Treasury rightly reserves these tasks and should retain a good deal of discretion in carrying them out. Advancing US interests in international monetary policy and cooperation requires a strong Treasury.

Congress should avoid several pitfalls in delegating to the Treasury. First, it would be inappropriate for Congress to mandate to the Treasury objectives that were not possible to meet, either

because they are conflicting or because the department does not possess the relevant instruments. Given that exchange rates and international monetary policy are subject to multiple pressures, private and official, the injunction against unrealistic mandates is important. It would be inappropriate, for example, for Congress to mandate pursuit of an exchange rate or current account target that was inconsistent with the legislature's own fiscal choices. Second, while Congress can mandate objectives, it would be inappropriate for the legislature to mandate an outcome to international negotiations that depended in turn on the willingness of foreign governments to cooperate. Third, deflecting politically unpopular decisions to executive agencies and then criticizing them—scapegoating—while common is also inappropriate.

Potential conflict between maintaining room for maneuver for Treasury and the accountability mechanism arises in two ways. First, accountability sometimes deliberately restricts the agent's discretion, as the 1988 act sought to do with respect to currency manipulation. Second, disclosure of information necessary to conduct oversight can potentially undercut Treasury effectiveness, if for example foreign interlocutors wish to preserve confidentiality. However, international norms have evolved toward substantially increased transparency since the 1988 act was drafted. Moreover, accountability mechanisms can be designed to minimize (though perhaps not eliminate) the tradeoff with policy effectiveness.

Overall, the more authority and autonomy is delegated to an agency, the more important are reporting, disclosure, and oversight. Delegation and accountability go hand in hand. It is appropriate for Congress to set broad policy goals, and some specific ones, and to insist that Treasury provide information and defend its use of discretion.

EXCHANGE RATES AND INTERNATIONAL ECONOMIC POLICY COORDINATION ACT OF 1988

As a prelude to examining the usefulness of the exchange rate reporting process, a review of the origins of the 1988 act and its key elements is in order.

Origins

The exchange rate reporting act was forged in the heat of the international trade and monetary conflicts of the mid-1980s. During the early part of that decade, the United States pursued a combination of loose fiscal policy and tight monetary policy that came to be called the "Reagan-Volcker" policy mix. The mix produced an appreciation of the dollar and trade and current account deficits that set new records. Rather than alter domestic macroeconomic policy in light of these external consequences, the first Reagan administration actively encouraged capital inflows to finance the fiscal and current account deficits. These

policies produced a flood of imports and pressure on traded goods producers that was unprecedented in the postwar period. When these interest groups complained to Treasury, Secretary Donald Regan and his Undersecretary for International Affairs Beryl Sprinkel told them Treasury would not attempt to cap the value of the dollar for their benefit. These groups then brought their complaints to Congress. (Destler and Henning 1989, Henning 1994, and Destler 2005 review this episode.)

Congress responded in three ways. First, a number of committees held hearings on the issue, raising public consciousness and building a case for policy action. Second, several members proposed trade legislation that would favor domestic industry. Resentment of the administration's trade policy ran so deep that one protrade member claimed, hyperbolically, that the House of Representatives would have passed the Smoot-Hawley bill had it been brought to the floor during the summer of 1985. Third, members of Congress proposed legislation that would require the Treasury and Federal Reserve to address the exchange rate.

Such legislation went through two phases. The first set of bills would have required these agencies to intervene in the foreign exchange market in prescribed amounts to depress the value of the dollar. These bills were impractical but forced the administration to take the sentiments of the Congress on this issue seriously. The chairman of the Ways and Means Committee, Dan Rostenkowski (D-IL), proposed an "exchange rate equalization tariff" directed at newly industrialized economies (NIEs) that maintained undervalued currencies—a precursor to similar bills before the present Congress. The second set of bills endeavored to make the executive more accountable with respect to exchange rate and related policy, more responsive when a broad set of private interests object to the value of the dollar, and more vigilant with respect to specific countries that maintained undervalued rates.

During 1985 James A. Baker III, who had replaced Donald Regan at the outset of the second Reagan administration, addressed the issue by launching the process that resulted in the Plaza accord of September of that year and the Louvre accord of February 1987. This process produced—or, depending on one's view of the effectiveness of government action in this domain, contributed to—a dramatic depreciation of the dollar and then a partial stabilization. It was coupled by an effort, in some cases more effective than in others, to alter domestic monetary and fiscal policies to contribute to the adjustment of current account imbalances (see also Funabashi 1988, Frankel 1995). Baker's actions bought time and some goodwill on Capitol Hill, which allowed the administration to defang some of the more protectionist elements from what was to become the Omnibus Trade and Competitiveness Act of 1988. However, a number of currencies, notably the New Taiwan dollar and the Korean won, remained relatively stable against the US dollar as the latter fell against the yen and European currencies (Balassa and Williamson 1990). So the sponsors of the 1988 trade act sought, among several other things, to appreciate such undervalued currencies as well as to prevent a repeat of the policies of the first Reagan administration.

The drafters of the exchange rate portion of the 1988 trade act, formally titled the Exchange Rates and International Economic Policy Coordination Act of 1988, looked to the IMF's Articles of Agreement for a statement of members' obligations with respect to exchange rates. Article IV states, among other things, "In particular, each member shall . . . avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members . . .." This passage, introduced with the second amendment to the Articles of Agreement after the transition to floating exchange rates in the 1970s, provided the basis for special consultations with Sweden in 1982 and Korea in 1987 when their policies became suspect; but the Fund has never cited a member for manipulation. The Executive Board had established guidelines that the Fund staff was to follow in surveillance of members' exchange rate policies, including specific criteria that could indicate proscribed manipulation (Article IV and the 1977 guidelines, as amended through June 2007, are reproduced in appendices B and C, respectively. See also Goldstein 2006). For the section of the 1998 exchange rate act that addressed the currency policies of the East Asian NIEs, the drafters borrowed the language of Article IV almost verbatim.

Key Elements

The 1988 exchange rate act contains six sections, 3001 to 3006, devoted respectively to short title, findings, statement of policy, international negotiations, reporting requirements, and definitions. (The act is reproduced in appendix A.)

In section 3002, Congress found that patterns of exchange rates have contributed to trade and current account imbalances, that this was true in particular of the appreciation of the dollar during the early 1980s, "imposing serious strains on the world trading system and frustrating both business and government planning." Currency manipulation on the part of some "major trading nations" continued to create "serious" competitive problems for US industry. A "more stable exchange rate" at a level consistent with "a more appropriate and sustainable" balance in current account should be "a major focus of national economic policy." Macroeconomic policy coordination and foreign exchange intervention could be useful tools to that end.

Section 3003 states that "[i]t is the policy of the United States that" the United States and its partners should continue the process of coordinating "monetary, fiscal, and structural policies" begun with the Plaza agreement. The goal of the United States in international economic negotiations should be "to achieve macroeconomic policies and exchange rates consistent with more appropriate and sustainable balances in trade and capital flows and to foster price stability in conjunction with economic growth." The United States and its partners should intervene, "in combination with necessary macroeconomic

policy changes," to bring this about. The section adds, pointedly, that "the accountability of the President for the impact of economic policies and exchange rates on trade competitiveness should be increased."

Section 3004 addresses two levels of negotiations: (1) multilateral, where the president is directed to "seek to confer and negotiate" to achieve these objectives, and (2) bilateral, the heart of the antimanipulation provisions. Under the bilateral negotiations subsection, the act directs the secretary of the Treasury to "analyze on an annual basis" the exchange rate policies of other countries for evidence of manipulation against the dollar "for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade"—language that adhered deliberately to Article IV of the IMF Articles of Agreement.

The secretary is to apply a three-part test. If a country (1) manipulates its rate, (2) runs "material global current account surpluses," and (3) has "significant bilateral trade surpluses with the United States," then the secretary "shall take action to initiate negotiations with such foreign countries on an expedited basis," in the Fund or bilaterally, to ensure that the cited country "regularly and promptly" adjusts its exchange rate to eliminate the unfair advantage and permit balance of payments adjustment. These negotiations will produce results only with the assent of the counterparts; legislation can only require that the secretary approach counterparts for negotiations.

Notably, the secretary is not required to initiate negotiations in cases where they would have a "serious detrimental impact on vital national economic and security interests" but would have to inform the chairpersons and ranking members of the banking committees of both houses of such a determination.

Second 3005 details the reporting requirements. The secretary of the Treasury shall submit a report annually to the banking committees of both houses, on or before October 15, with written six-month updates (on April 15). The department shall consult with the Federal Reserve when preparing the report. The secretary shall testify to the banking committees on the report if requested to do so. The section also directed the Federal Reserve, for its part, to analyze the impact of the dollar's exchange rate on the US economy in its semiannual Humphrey Hawkins reports to Congress—a provision that survived, albeit in slightly amended form, the revision to the Federal Reserve's monetary policy reporting mandate in 2000.

The section specifies a long list of information that Treasury must include in its reports:

- "an analysis of currency market developments" and exchange rates;
- an evaluation of the determinants of exchange rates;
- "a description of currency intervention" and other exchange market actions;
- assessment of the impact of the dollar's exchange rate on the "competitive performance" of "industries," trade and current account balances, production, growth, employment, and external indebtedness;

- recommendations for “any changes in United States economic policy to attain a more appropriate and sustainable” current account balance;
- the results of negotiations over currency manipulation;
- issues arising in Article IV consultations with the IMF; and
- a report on international capital flows and their effects.

The act thus placed a substantial additional burden on the department to collect, analyze, and report these assessments to Congress. In passing this legislation, members of Congress expected Treasury to convey analytical substance that would provide a foundation for meaningful oversight. They also intended that these reports inform the broader public discourse on international economic policy and the external ramifications of domestic monetary and fiscal policies. Above all, they wanted to make it more difficult for Treasury to neglect a strong dollar and undervalued foreign currencies as it had under Secretary Regan.

Comparison to IMF language

There are two important differences between the language of the IMF articles and exchange rate surveillance guidelines, on the one hand, and the 1988 US legislation, on the other. First, the IMF language is symmetrical with respect to overvaluation and undervaluation; countries were enjoined against manipulating the rate to achieve either (IMF 2006, Frankel and Wei 2007). The 1988 act, by comparison, is asymmetrical: Countries are to be cited for manipulation when they “(1) have material global current account surpluses; and (2) have significant bilateral trade surpluses with the United States.” The manipulation provision is not meant for countries running trade and current account deficits. Second, whereas the IMF focuses on overall current account surpluses, the US legislation introduces the *bilateral* trade balance. While politically salient (Noland 1997, Frankel and Wei 2007), a large majority of economists regard the bilateral balance as a policy-irrelevant concept in a world of multilateral trade.

CAPSULE HISTORY OF REPORTS

Table 1 provides an overview of the 34 reports that Treasury has submitted since October 1988. (The exchange rate of the dollar against the mark/euro and yen and the US current account balance over this period are presented in figures 1a, 1b, 2, and 3.) One might assess the exchange rate reports by at least three standards. The narrowest test would be whether the reports meet the content requirements of the 1988 act. A second test would be whether the reports provide the basis for informed oversight by Congress, including information that is not already openly available or at least has value added by

virtue of its presentation or analysis. The broadest test would ask whether the reports address policies and problems that the markets, the public, and Congress care about. Because this paper is concerned with all three standards, this section takes a broad approach and examines the reports' treatment of important questions confronting international monetary policy broadly: early findings of manipulation, the Mexican peso crisis of 1994–95, Asian financial crisis of 1997–98, Economic and Monetary Union (EMU) in Europe, Japanese intervention in 2003–04, and current Chinese exchange rate policy. To preview the conclusion, the section finds that, while the reports satisfy most of the content requirements of the 1988 act, they are incomplete as a basis for oversight and often overlook major policy questions.

Findings of Manipulation

In its first report, in October 1988, the Treasury Department found that Korea and Taiwan manipulated their exchange rates and announced that it would initiate negotiations with those countries. Both governments had managed their currencies to keep them stable against the dollar and allowed only modest appreciations after the Plaza accord (figures 4a and 4b). C. Fred Bergsten and then Assistant Secretary of the Treasury for International Affairs David C. Mulford had advocated appreciation of these currencies in 1986 and 1987, respectively, supported by analysis by Bela Balassa and John Williamson (1987 and 1990). By 1988 these countries were experiencing growing current account and bilateral trade surpluses (figures 5a, 5b, 6a, and 6b); they also maintained capital and exchange controls.[2]

Treasury's approach to Korea and Taiwan came at a time when the United States was pressing trade partners for market access quite aggressively, one instrument for which was the separate provision of the 1988 Trade Act called "Super 301." It is worth noting that congressional oversight hearings directly linked the exchange rate and Super 301 negotiations (see, for example, US Senate, Finance Committee 1989). Both countries also had an unusual relationship with the United States on military security, and neither could afford to jeopardize these ties. Both countries, accordingly, acceded to negotiations and allowed modest further appreciation of their currencies against the dollar after the October 1988 report (figures 4a and 4b).

Taiwan had run an overall current account surplus of 18.5 percent of GNP in 1987 and, although appreciation that year improved the bilateral trade deficit during 1988, the New Taiwan dollar had not appreciated during January–September 1988, and Treasury expected Taiwan's external surpluses to "reemerge" (figure 5b). Treasury also noted capital and exchange controls, particularly on capital inflows, and large amounts of intervention when citing Taiwan. In response, Taiwanese authorities

2. In spring 1989 testimony to the Senate Finance Committee, Bergsten and Williamson were critical of the manipulation designation, arguing that by then the appreciation of the New Taiwan dollar and the Korean won had been sufficient to produce adjustment (Bergsten 1989, Williamson 1989).

reformed their exchange rate system in April 1989 and allowed a 12 percent appreciation between October 1988 and October 1989. The bilateral trade deficit fell but remained the largest among the Asian NIEs for some time (see figures 6a, 6b, and 6c). In its October 1989 report, nonetheless, Treasury declared that there was no further need for appreciation at that time and delisted Taiwan as a manipulator (Treasury reports, October 1988, April 1989, October 1989).

In March 1990 the Korean government announced a change in its exchange rate regime leading the US Treasury to remove the manipulation designation in the April 1990 report. While Treasury justified the removal by the liberalization of the foreign exchange market in Korea, the shift also coincided with the disappearance of Korea's current account surplus (see Frankel 1992).

Treasury nonetheless warned that it was concerned that both governments retained the ability to manipulate the exchange rate, that the currency should continue to contribute to adjustment of their external balances, and that Treasury would continue to scrutinize the policies of both countries. In fact the department relisted Taiwan in the May 1992 report, maintained the designation in the following report, and delisted the country again in May 1993.

China is treated for the first time in the November 1990 report. The report noted that China had been running overall current account and trade deficits during most of the previous decade but that its bilateral trade surpluses with the United States had been growing since 1985 (figure 6c). Although China had an administered foreign exchange system, which was used to support exports, the principal cause of the bilateral imbalance was general administrative controls over trade.[3] China was not yet cited as a manipulator.

During the two subsequent reports, Treasury ratcheted up its analysis of the Chinese exchange rate system and its warnings to Beijing. The May 1991 report noted that China's overall current account balance shifted from deficit in 1989 to significant surplus in 1990 (figure 5c). In the November 1991 report, one-quarter of which was devoted to China alone, Treasury announced that its officials had visited China during the previous July and September to discuss these matters and to "seek concrete steps toward a more market-oriented system of exchange rate determination." While there was "no clear evidence that the authorities manipulate the exchange rate itself," the department remained "seriously concerned" about the size of China's external surpluses.

Treasury finally cited China for manipulation in the May 1992 report. It noted that the renminbi had depreciated in real terms during the previous two to three years in the face of growing external surpluses. The rate was closely managed through the administered system, and foreign reserves

3. In a passage that foreshadowed the economic diplomacy of the mid-2000s, Treasury said, "It is a matter of concern for the United States Government. There is, thus, an interagency effort to formulate a strategy for addressing this problem. Moreover, we aim to press China through any available bilateral contact and in the international financial institutions (especially the IMF and World Bank) to remove its restrictions" (Treasury report, April 1990, p. 31).

were rising. Treasury thus concluded that Chinese authorities employed exchange rate policy, in addition to trade controls, to attain competitive advantage in international trade, justifying the designation as a "manipulator" (p. 32). Treasury asked China for three things specifically: (1) elimination of the foreign exchange surrender system, (2) loosening of controls on the swap centers, and (3) greater transparency in foreign exchange laws and regulations (p. 33). The report also mentioned that China was the subject of a Super 301 trade investigation.

Subsequent reports mention at least four negotiations with Chinese authorities over their exchange rate system. The November 1993 report noted China's application to accede to the World Trade Organization (WTO) but declared, "China has not yet brought its foreign exchange regime into conformity with GATT Article XV," and urged China to do so. At the beginning of 1994, China unified its dual exchange system and introduced other liberalizing reforms. While welcoming these moves, Treasury objected to exclusion of foreign firms from the new interbank market in foreign exchange. Treasury nonetheless removed its manipulation designation in the December 1994 report. The operative passage is worth quoting:

> It is therefore Treasury's determination that China is not currently manipulating its exchange system to prevent effective balance of payments adjustment and gain unfair competitive advantage in international trade, but that it retains the capacity and bureaucratic means to do so in the future (p. 26). . . . However, it is essential that China commit to liberalizing access to foreign exchange for current account transactions, as is required under Article VIII of the IMF's Articles of Agreement. The United States continues to seek such commitments from China in bilateral negotiations and in multilateral negotiations regarding China's accession to the WTO. (p. 31)

Treasury reported continued talks with Chinese authorities on these matters through the December 1995 report and occasionally during 1997 and 2001. Despite a steadily rising bilateral trade deficit with China, Treasury declined to cite China for manipulation. Although several counties have been reviewed, no other country has been cited in these reports for manipulating its currency since then.

Lardy (1994, 86–90, 137) criticized Treasury's manipulation designation, arguing that the effect of Chinese authorities' foreign exchange operations prior to the unification of the dual exchange system in 1994 was to prevent rather than foster further depreciation of the swap market rate. Treasury failed to distinguish between important categories of foreign exchange reserves, those held by the central authorities and those held in state-owned banks and controlled by numerous trading firms, and to recognize that large net outflows of capital, not intervention, placed downward pressure on the renminbi during 1992 and 1993. In other words, Lardy concluded, China's "manipulation" had the opposite effect on the exchange rate of that suggested by Treasury.[4]

4. Lardy added that if China moved toward convertibility on the capital account as well as the current account, as Treasury was urging, Treasury should expect the renminbi to depreciate, not appreciate, in real terms. Note, though, that Treasury later made

What factors explain Treasury's decisions to cite countries for manipulating their currencies in these reports? Why did Treasury cite only these three countries and not others? The extensive use of exchange controls to manage the exchange rate and external trade is a factor common to all of these decisions on manipulation and is consistent with the timing of delisting. Treasury repeatedly referred to controls in the reports and uses this criterion as part of the justification for not citing China currently. External surpluses on the current account and bilateral trade, which are specifically listed in the 1988 act as criteria for initiating negotiations, are also common to these three cases but do not explain the timing of China's delisting. Finally, all of these countries were important in the international trading system and had attracted attention on Capitol Hill. These appear to be Treasury's dominant considerations in deciding which countries should be cited and when. (See also the tabulation of rationales in GAO 2005, appendix III.)

In a useful paper, Frankel and Wei (2007) test alternative explanations for Treasury's decisions against data for a broad set of US trading partners, including countries that were not cited for manipulation. They find that a country's overall current account balance and an undervalued currency increase the chances that Treasury will review it for manipulation, launch discussions with it, or actually cite it for manipulation. But they stress that the bilateral trade balance, as well as the US unemployment rate, is the more important determinant of Treasury manipulation decisions. They add that in this way, Korea, Taiwan, and China have been "scapegoats" in US policymaking. They do not specifically test the explanatory power of the maintenance of exchange controls.

Finally, it is worth noting that, at least with respect to exchange rate manipulation on the part of the NIEs, Treasury embraced the spirit and letter of the 1988 act during these early years. Treasury officials appeared pleased to testify on their progress before the banking committees. Undersecretary David C. Mulford, who had opposed stronger versions of the act before passage, praised the reporting process and stressed the importance of cooperation with Congress. Secretary Nicholas F. Brady called the reporting process "an enormously useful vehicle" (Destler and Henning 1989, 113–14).

Mexican Peso Crisis of 1994–95

During the mid-1990s, Mexico was the third largest trading partner of the United States; as a neighbor, Mexico was also important to a host of other US foreign policy goals. The North American Free Trade Agreement (NAFTA), negotiated by the George H. W. Bush administration and passed by Congress during the Bill Clinton administration, had been the most widely debated trade measure within the

a clear distinction between determining manipulation and determining undervaluation, which it argued was not required by the 1988 act. See GAO (2005).

United States since World War II. The Mexican peso crisis of 1994–95 threatened political support within the United States for this agreement, and Congress was called upon to fund the largest ever financial rescue package. Once the worst of the crisis had passed, Congress intensively scrutinized Treasury policymaking with respect to the peso-dollar rate.

The period leading up to the crisis illustrates Treasury's conflicted position. Privately, Treasury officials became increasingly concerned about the viability of Mexico's exchange rate regime. The flow of confidential memoranda, released by members of Congress after investigating the crisis, documents growing alarm within the Treasury and Federal Reserve over Mexican exchange rate policy.[5] However, as financial markets became increasingly concerned about political and economic events within Mexico over the course of 1994, Clinton administration officials continued to publicly express confidence in the Mexican economy.[6]

Accordingly, Treasury's exchange rate reports held no warning of the peso crisis. Despite Mexico's importance to US trade and the substantial amount of time Treasury officials had devoted to the peso problem, there was no significant treatment of Mexico in the department's exchange rate reports either before or after the crisis. Neither the manipulation provisions (section 3004(b)) nor the report content provisions (section 3005(b)) strictly required such a discussion. But a forthcoming treatment of international monetary developments of primary concern to the country that went beyond the specific requirements of the law could certainly have included discussion of the peso.

After the crisis broke in December 1994, the Clinton administration proposed a $40 billion loan guarantee program for Mexico to Congress. When Congress refused to act, notwithstanding bipartisan leadership support for the guarantees, Treasury officials announced that they would instead lend up to $20 billion from the ESF as part of an international package that included up to $17.8 billion from the IMF (Henning 1999, Rubin and Weisberg 2005).

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5. See, for example, US Treasury Department, Bi-Weekly Report on Mexico, February 15, 1994, Treasury document no. 003280; Memorandum to Summers and Shafer, March 24, 1994, Treasury document no. 002438; Memorandum from Summers to Bentsen, April 26, 1994, Treasury document no. 003247-003253; Memorandum from Geithner to Summers and Shafer, "Mexico: Planning for the Next Stage," December 5, 1994, Treasury document no. 001209-210; Memorandum to Geithner, Summers, and Shafer, "Contact the Mexicans Before They Do Something," December 19, 1994, Treasury document no. 702690; Memorandum from C. Pigott to Bennett, "The Mexican Peso," June 3, 1994, Federal Reserve Bank of New York (FRBNY) document no. 10003817-19, no. 94-81; Memorandum from Siegman to Greenspan and Blinder, August 19, 1994; Kamin and Morton, "The Implied Probability of a Peso Devaluation," August 19, 1994, FRB document no. 94-119; and Kamin and Howard, "Options for Mexican Exchange Rate Policy," August 17, 1994, FRB document no. 94-115.

6. On March 24, 1994, Secretary Bentsen issued a statement that ". . . we have every confidence that Mexico is on the right economic path" (Reuters World Service, March 24, 1994). On November 21, 1994, after billions had fled the country, Bentsen stated that, "I have been impressed by Mexico's strong economic fundamentals, with falling inflation, stronger growth and a balanced budget..." (Memorandum from Summers to Bentsen, "Statement on Mexico," November 21, 1994). In December 1994, with the Mexican economy at breaking point, President Clinton cited Mexico as a model of successful economic development at the Miami Summit of the Americas (Weekly Compilation of Presidential Documents, December 19, 1994).

Feeling circumvented by the use of the ESF, members of Congress launched an investigation into administration policymaking prior to the crisis and into the loan package, holding multiple hearings in several committees (see, for example, US Senate, Committee on Banking 1995). Although Treasury officials testified, this did not satisfy members of Congress. The Mexican Debt Disclosure Act of 1995, passed in April, required Treasury to report extensively and in detail on its financial support to Mexico (see, for example, Henning 1999, 66–70). The department did so separately from its exchange rate reports (US Treasury 1995a, 1995b, 1996). Senator Alfonse D'Amato, who as chairman of the Senate Banking Committee was particularly active, shepherded through the budget legislative process temporary restrictions on Treasury's use of the ESF (Henning 1999, 66–70). In the final analysis, Treasury's financial support for Mexico was a success, and the D'Amato restrictions were counterproductive. But the backlash against Treasury policy highlights the political consequences of presenting Congress with unpleasant surprises.

This episode generates several observations. First, the manipulation provisions of the 1988 act do not address cases of overvaluation; they are asymmetrical. Second, the peso crisis demonstrates that overvalued currencies can pose as much risk to the US economy as undervalued currencies. But, in contrast to the cases of undervaluation in East Asia during 1988–94, Treasury did not find the reports to be a useful vehicle to cajole Mexico toward greater exchange rate flexibility. Third, one might nonetheless ask whether the congressional backlash would have been muted if Treasury had given the peso more attention in these reports prior to the crisis and whether Treasury should say more about overvalued rates in these reports in the future.[7]

Asian Financial Crisis of 1997–98

The crisis that swept across East Asia, extending to Russia and Latin America, dominated international financial policy during the second half of the 1990s. US Treasury officials worked on this problem intensively, bilaterally and in cooperation with the G-7 partners and the IMF, issuing a number of important statements and testifying frequently on Capitol Hill (see, for example, US House of Representatives, Committee on Banking, 1997 and 1998). Remarkably, however, Treasury suspended its exchange rate reports to the Congress. Distracted by weekly financial firefights and unwilling to telegraph their intentions to the markets, Treasury officials evidently saw little benefit in these reports to their handling of the crises.

7. The answer hinges on whether the report can address vulnerabilities without provoking a crisis. Goldstein (1997, 59–62) argues that such a middle ground, narrow as it might be, exists in the case of the IMF. As argued below, similar reasoning applies to Treasury reports.

When it finally released its report, in January 1999, Treasury pinned much of the blame for the crisis on the weakness of domestic financial systems within the stricken countries. It urged Japan and its banks to clean up the financial system and duly reported intervention in June 1998 to support the yen, then around 146 to the dollar. Treasury had also improved the format and readability of the statement, which thereafter stylistically resembled a JP Morgan or Goldman Sachs brief on the exchange markets.

The report cited no country for manipulating its exchange rate. In an effort to make the definition of manipulation more systematic and transparent, the Rubin/Summers Treasury had listed four criteria in its December 1995 report (pp. 11–13)—external balances, exchange restrictions and capital controls, exchange rate movements, and movements in reserves—and in its February 1997 report added a fifth criterion, macroeconomic trends. Although China had a record, growing current account surplus, a growing bilateral trade surplus with the United States, and controls on capital inflows and had intervened to prevent appreciation of the renminbi, the January 1999 report cited a slowdown in growth—the newest criterion—when concluding that China had not manipulated its currency.

Japanese Yen

The dollar's rate against the Japanese yen had been one of the causes of the politicization of exchange rate policy during the mid-1980s and a motive for the 1988 act. During most of the period covered by the reports, the Japanese economy was mired in prolonged stagnation, a consequence of the bursting of the asset bubble at the end of the 1980s. The yen-dollar rate reemerged periodically, first under Clinton's first Treasury secretary, Lloyd Bentsen, second as the Japanese currency appreciated to a record 80 to the dollar in mid-1995, and third when it weakened to (nearly) 150 to the dollar in 1998 (figure 1b). The Treasury and Federal Reserve intervened in the yen-dollar foreign exchange market during these episodes and reported these operations accordingly (see, for example, Treasury reports of April 1989, 9; October 1989, 8; August 1995, 12–13; and December 1995, 2–4). With the exception of brief statements that intervention was effective, the treatment in the exchange rate reports was largely descriptive rather than analytical and largely duplicated the report on foreign currency operations provided in the *Federal Reserve Bulletin*.

The "Great Intervention" of 2003–04 represents a fourth important episode involving the yen. During this period, just as their economy was emerging from its prolonged slump, Japanese authorities purchased $320 billion to restrain the appreciation of the yen from about 120 at the beginning of 2003 to the vicinity of 105 to 110 between the summer of 2003 and 2004. US Treasury officials suspended their objections to intervention in principle in the belief that intervention would facilitate a monetary expansion in Japan, which would help to sustain its recovery. As massive interventions continued, however, Undersecretary for International Affairs John B. Taylor insisted that his Japanese counterparts develop an "exit strategy," which they implemented in March 2004 (Taylor 2007).

This episode illustrates a missed opportunity to make the exchange rate reports more relevant. The Great Intervention was by far the most important official action in the international monetary system at the time. Treasury discussed the Japanese operations in its reports for 2003 and the first half of 2004, mentioned that the department supported monetary expansion in Japan, and indicated that the department was engaged in discussions with Japanese officials. Undersecretary Taylor testified on the intervention at least twice, reiterating the treatment in the reports (October 1 and 30, 2003).

The extent to which the interventions assisted in the Japanese recovery is disputed (e.g., Fatum and Hutchison 2005), however, and Taylor himself objected that the Ministry of Finance intervened too much in March 2004. After he left the Treasury, Taylor in an intriguing memoir discussed the interventions, his response to the Japanese, and deliberations over target ranges with his counterparts in a new "G-3" (Taylor 2007). During 2006 US automobile companies objected that the yen's weakness was a lingering consequence of the Great Intervention, and members of Congress quoted specifically from Taylor's book when making this case at hearings the following year. Taylor served the transparency of exchange rate policy by treating this episode in his book; but congressional oversight and public discourse would have also been improved by more complete analysis of this episode in the exchange rate reports.

Economic and Monetary Union and the Euro

The creation of Europe's monetary union in January 1999 was the most important change in the structure of the international monetary system in at least a generation. The new currency, the euro, replaced 11 national currencies (now 13), creating a monetary bloc three-quarters the size of the United States by GDP and a potential competitor to the dollar as an international currency. After the Maastricht treaty was signed and at the outset of the convergence process, the Treasury Department generally avoided making public comments on the desirability or feasibility of the monetary union, on the reasoning that the creation of the euro was something for the Europeans alone to decide. Privately, senior officials harbored serious doubts about whether Europe would introduce the economic reforms necessary to make the euro a success. When they began to speak on European monetary integration directly in 1997, Treasury officials affirmed that the United States had a strong interest in a prosperous Europe but warned that greater flexibility in the European economy, in particular labor markets, and greater fiscal consolidation would be necessary to make the project successful (Summers 1997, Geithner 1998, Truman 1999; US official views are reviewed in Henning 2000, 12–17). Congressional committees held hearings on the ramifications for the United States at which Treasury officials testified (US Senate 1997, US House of Representatives 1998b). But the treatment of this important subject in the exchange rate reports was limited to one and a half pages in February 1997 (pp. 8–9) and three paragraphs in January 1999 (p. 3). The gist of this treatment, half of which was purely descriptive, was that the fate of the dollar

remained in the hands of US policymakers and that EMU's "direct economic impact on the United States was likely to be limited."

China, 2000–2007

The present case of China has riveted attention on the Treasury reports and spawned proposed legislation in Congress on the reporting process and remedial measures. This section reviews the treatment of this topic in the reports and draws lessons from this case.

During the Asian financial crisis, China maintained its peg to the dollar to the relief of most governments in the region as well as the international community. China maintained this policy afterward as well, despite substantial increases in productivity and sustained emerging external surpluses (on both the current and capital accounts). The countries stricken by the crisis were determined not to repeat it and, among other strategies, managed their currencies at stable competitive rates by intervening in the currency markets. As a result, China and its East Asian neighbors began to accumulate large amounts of foreign exchange, mostly US dollars, at the beginning of this decade. China however stood out as the most consistent and largest purchaser of dollars, surpassing Japan in total foreign exchange reserves during 2006. (The China case has been treated, and debated, extensively. For some of the critical contributions, see Dooley, Folkerts-Landau, and Garber 2003; Eichengreen 2004; Goldstein 2004 and 2005a; Goldstein and Lardy 2005; McKinnon 2006; and Bergsten 2007.)

In the "manipulation" section of its reports during 1999 and 2000, Treasury took note of China's peg to the dollar and its rising bilateral trade surplus with the United States. However, a declining overall current account surplus exculpated China from manipulation. The reports reproduced, however, excerpts from a speech by Treasury Secretary Lawrence Summers warning against the type of peg that was common in East Asia prior to the 1997–98 crisis and that China continued to maintain. "[I]t is clear to us that a fixed, but not firmly institutionalized exchange rate regime holds enormous risks for emerging market economies . . . ." The final report of the Summers Treasury stated that in bilateral discussions, it had "urged the Chinese authorities to move, over time, to a more flexible exchange rate regime" (January 2001, p. 13).

Under Secretary Paul O'Neill, Treasury reports became dramatically shorter in length, the format changed noticeably, and the treatment of potential "manipulators" was folded into the main analysis rather than treated in a separate section. Treasury officials did not use the report to send signals to China or Congress regarding its attitude toward the renminbi, despite steady increases in China's external surpluses. Under questioning from Senate Banking Committee Chairman Paul Sarbanes (D-MD) during oversight hearings in May 2002, Secretary O'Neill denied that China's exchange rate regime was a serious problem for the United States (US Senate, Committee on Banking, Housing, and Urban Affairs. 2002).

The October 2003 report marked an important change. Under the leadership of Secretary John Snow, Treasury officials stated clearly that the renminbi peg "is not appropriate for a major economy like China and should be changed." The document reported that Secretary Snow had proposed to Chinese officials that they move to a more "flexible market-based exchange rate regime" (it did not specifically call for appreciation or revaluation) and reduce controls on capital flows (October 2003 report, p. 7).

Subsequent reports ratcheted up the tone of urgency on this subject, as the attention within Congress expanded with the size of the trade imbalances. Treasury's May 2005 report declared, "It is now widely accepted that China is now ready and should move without delay in a manner and magnitude that is sufficiently reflective of underlying market conditions" (p. 11)—widely interpreted as a threat to cite for manipulation in the subsequent report.

China announced in July 2005 that it revalued the renminbi slightly more than 2 percent and reformed the exchange rate regime (People's Bank of China 2005). Since then the renminbi has appreciated modestly against the dollar, by about 10 percent, but has risen negligibly on an effective basis. China's global current account surplus continued to soar, reaching 9 percent of GDP in 2006, and rising. Treasury continued to say that Chinese exchange rate policy was inappropriate and should be further changed and that it discussed these matters with the Chinese authorities extensively. It waited until its June 2007 report to declare the renminbi undervalued,[8] after the IMF's bilateral surveillance report announced that conclusion. But, as of this writing, these reports have not called specifically for appreciation or revaluation—as opposed to greater "flexibility"[9]—nor have they cited China again for manipulation.

The evolution of Treasury's position on Chinese manipulation raises several interesting points. These relate to the (1) shifting definition of manipulation, (2) Treasury's recent analytical work, (3) application of intent, (4) nonuse of the waiver, and (5) negotiations with China.

Shifting Criteria for Manipulation. First, the criteria that Treasury enunciates for manipulation have been vague and change over time. The 1988 act does not define the term clearly, and each team of political appointees to the department took a somewhat different approach. During the early 1990s Treasury did not enunciate clear criteria that it would use but made clear that it was citing China for its bilateral and global surpluses combined with its close management of the exchange rate through controls and intervention. Although Treasury sustained criticism for each of the three citations for manipulation (see, for example, Lardy 1994, Bergsten 1989, and Williamson 1989), its application was an arguably

8. Although it had argued that determining undervaluation was distinct from determining manipulation and that the 1988 act did not require the former (GAO 2005).

9. The term "flexibility" could be construed to include a one-shot revaluation and an upward managed float, of course, but is ultimately ambiguous with respect to the expected direction of movement.

defensible interpretation of the language in the 1988 act and was not challenged by the banking committees. The December 1995 report (pp. 11–13) contained four criteria—external balances, exchange restrictions and capital controls, exchange rate movements, and movements in reserves—which were expanded to five with the addition of macroeconomic trends in February 1997. Because it was on the new criterion that China, whose growth was slowing, was exonerated in January 1999, an independent outside observer should be forgiven for expecting that, when Chinese economic growth accelerated, the Treasury would therefore cite China if the other criteria remained satisfied. But the O'Neill Treasury reduced the criteria to two—exchange restrictions and exchange rate movements—qualifying the latter by saying that real equilibrium exchange rates are "difficult to define" (October 2001, 10). The Snow Treasury expanded the number of criteria to seven—exchange rates, external balances, reserves, macroeconomic trends, monetary and financial developments, state of institutional development, and financial and exchange restrictions—but did not elaborate on them as had the Rubin/Summers reports.

Treasury Analysis. By 2004 members of Congress became concerned enough about Treasury's reluctance to find manipulation that they took two actions. First, they attached to the department's FY2005 appropriation a requirement for a separate report on the criteria used to make the manipulation determination. Second, they initiated a study of these reports by the Government Accountability Office (GAO). Thus in March 2005 Treasury delivered to the appropriations committees a substantial, in-depth paper on the criteria it used to determine manipulation (Treasury 2005). The GAO, which released its report in April, noted that the factors contained in Treasury's reports varied over time and that the weights attached to them by the department when assessing manipulation were not transparent. But the GAO complimented the March 2005 Treasury paper as a "high-level discussion" (GAO 2005).

Treasury responded in its November 2005 exchange rate report by attaching an appendix entitled "Analysis of Exchange Rates Pursuant to the Act." The appendix presented six specific measures, subjected to three weighting schemes, and evaluated 23 trading partners. These indicators—(1) trade and current account balances, (2) protracted large-scale intervention in one direction, (3) rapid foreign exchange reserve accumulation, (4) capital controls and payments restrictions, (5) measures of undervaluation and real effective exchange rate movements, and (6) unusually heavy reliance on net exports for growth—echo some of the criteria for identifying manipulation in the IMF guidelines for exchange rate surveillance. Given the absence of guidance on the interpretation of this term in the 1988 act, and the fact that the act's language was borrowed from Article IV, these guidelines are certainly relevant.[10] But Treasury also adopted the interpretation of the guidelines that stressed intent and gave deference to the declaration

10. The reports do not refer explicitly to the IMF's guidelines on exchange rate policy, but such a reference is contained in the March 2005 report to the appropriations committees.

of purpose of the target of the investigation. Thus, in the June 2007 report, after reviewing the data and concluding that the renminbi was undervalued, Treasury stated that it did not cite China for manipulation because it was "unable to determine that China's exchange rate policy was carried out for the purpose of preventing effective balance of payments adjustment or gaining unfair competitive advantage in international trade" (p. 2). Note, however, that the question of intent had not barred Treasury from citing China, Korea, and Taiwan during 1988–94.

Since 2004, Treasury officials have mounted a good faith effort to give greater analytical content to the concept of manipulation and to improve the exchange rate reports generally. The reports became somewhat more detailed and incisive. And Treasury produced occasional papers reviewing models of equilibrium exchange rates and international economic policy coordination (McCowan, Pollard, and Weeks 2007; Sobel and Stedman 2006). For these, Treasury is to be complimented. (Sobel 2007 reviews Treasury's efforts in this regard.) But Treasury waited until opposition to Chinese exchange rate policy built up a substantial head of steam on Capitol Hill. Senator Charles Schumer's amendment received 67 votes on a procedural motion in March 2005, and since then Treasury has been on the defensive on this issue.

The Treasury papers are correct that analysis of equilibrium exchange rates is complicated, and different models produce different estimates. However, model uncertainty is not always critical for the finding of manipulation. When a country intervenes massively in one direction over several years while running ever-larger external surpluses and accumulating unprecedented quantities of foreign reserves, we do not need a sophisticated model to tell us that it has depressed its currency below the equilibrium value and frustrated balance-of-payments adjustment. In China's case, model uncertainty would be a transparent excuse for failure to designate for manipulation, and in fact Treasury's reports during 2006 and 2007 affirm the need for a change in China's regime. The department's rationale for not designating the country for manipulation now rests entirely on the "intent defense."

The underlying explanation for President George W. Bush's successive Treasury secretaries' refusal to cite China for manipulation appears to be threefold. First, the department and the US government more broadly have a number of other economic and foreign policy "fish to fry" with China, and securing renminbi revaluation, while important, is not a top governmentwide priority. Second, administration officials believe that citing China would be tactically counterproductive, making their Beijing counterparts more rather than less reluctant to revalue. Third, international support for the US position has been insufficient. The unwillingness of the IMF to pursue special consultations and cite China for manipulation is problematic for a US designation. Senior Treasury officials agree with the basic diagnosis that the Chinese currency is undervalued and should be revalued and have pursued this objective in bilateral negotiations. It would be reasonable to conclude that, in this context, Treasury officials believe that it would be a mistake on political grounds, irrespective of the economic and legal

merits, to designate China for manipulation. Treasury officials might also fear that citing China for manipulation would reduce their freedom of maneuver on the matter, incite members of Congress to invoke punitive measures if negotiations were not fruitful, and increase pressure to cite other countries as well.[11]

Negotiations. Treasury has nonetheless pursued the bilateral negotiations that it would have been required to pursue under the 1988 law if it had cited China for manipulation. Beginning under Secretary O'Neill, but especially under Secretary Snow, Treasury conducted serious talks with the Chinese Ministry of Finance and the People's Bank of China, among other Chinese actors. Secretary Paulson launched the Strategic Economic Dialogue, in which exchange rates figure prominently and which engages several US cabinet secretaries and Chinese ministers under the leadership of a deputy premier. Treasury clearly recognizes that the exchange rate is a critical issue, as does the administration more broadly, and is willing to press Chinese counterparts, even if not as forcefully as many members of Congress and independent analysts would prefer.

Intent and Accountability. The case that China has manipulated its exchange rate within the meaning and intent of the 1988 act rests on the economic criteria. Some of my colleagues have made this argument with compelling clarity. China has similarly satisfied the requirements for manipulation under the IMF's Article IV (Goldstein 2006; Bergsten 2007; see also IMF 2006). The "intent defense" does not withstand reasonable scrutiny. To conclude otherwise would be to argue that the term "manipulation" has no effective meaning; and this was certainly not the purpose of the members of either the IMF when negotiating the second amendment to the articles or the Congress when passing the 1988 act. Nor, of course, did the problem of divining intent prevent Treasury from citing China, Korea, and Taiwan for manipulation during 1988–92. The 1988 act, moreover, does not provide a waiver from the manipulation designation in cases where that designation could be tactically counterproductive or politically inconvenient; instead Treasury can waive the requirement to initiate negotiations once the designation is made.[12] So, it is difficult to reconcile President Bush's Treasury secretaries' refusal to cite China for manipulation with the letter and spirit of the 1988 act—which raises the question of their accountability to the Congress in this respect.

11. On the other hand, renminbi hawks argue, citing China for manipulation could also garner greater credibility in Congress, increase bargaining leverage with Chinese authorities, and discourage other Asian countries from following the Chinese approach.

12. This waiver has not been used probably because Treasury had already initiated negotiations with China and wished to pursue them.

Assessment

So, we return to the questions posed at the outset: How well has the accountability process worked? Do the reports present new information that Congress cares about in a timely manner and that allows the committees of jurisdiction to assess whether Treasury is meeting the objectives set for them under the 1988 act and other legislation?

Treasury's approach to the reporting process varied from one administration to the next. The Bush I administration integrated the reports into its strategy vis-à-vis both the G-7 countries and the NIEs. These early reports were longer and treated international coordination in more detail than most subsequent reports. These reports and the reasonably diligent follow-up by the congressional committees (next section) make this period the "high point" of the accountability process. The Clinton administration, while improving over time the reports that it submitted, treated them as a sideshow to the crises in Mexico and Asia, which they addressed through different channels to the Congress. The first Bush II administration treated the reports as a pro forma exercise, shrank them in size drastically, and virtually ignored the consequences of the Bush tax cuts for the external balance. The reports of 2001-2002 and the absence of follow up on the House side make this period the "low point" of the accountability process. The second Bush II administration was forced to take the reports more seriously under congressional scrutiny. The quality of the reports improved substantially since 2005—with more attention to the relationship between fiscal policy and the current account and the potential risks of growing external indebtedness and with the analytical appendices—and Treasury officials deserve substantial credit for the improvement. Unfortunately, the secretary's refusal to designate China for manipulation—the main focus of political attention—overshadowed these constructive steps.

The 2005 GAO report concluded that Treasury had "generally complied" with the reporting requirements of the 1988 act. It complained that the reports' discussion of the impact of exchange rates on the US economy had become less specific over time but took some comfort from Treasury's assurance that it took these effects into consideration (GAO 2005, 16–19). But the scope of the GAO analysis was limited to the narrow standard of whether Treasury satisfied the strict requirements of the law. When we ask whether the reports provide a firm foundation for oversight and address policy questions of contemporary interest—more comprehensive standards—the conclusion is less favorable.

For much of the period since 1988, the reports have been disappointing. The reports (a) were often submitted quite late and in some cases not at all, (b) avoided a number of policy questions that were the focus of contemporary attention and political interest, and (c) were backward looking and more descriptive than analytical. While manipulation was found in some circumstances, Treasury failed to find it in at least one blatant case. Too often, these reports appeared to be drafted to satisfy the literal requirement of the law rather than to enunciate, explain, and advance its policy.

Responsibility for the quality of the reports lies primarily with the senior political appointees at the department, beginning with the secretary. They make the basic decisions about how the legislative mandate for the reports will be fulfilled, the level of analysis provided, the amount of detail about G-7 discussions, and whether countries will be cited for manipulation, among other basic parameters. On highly political questions, such as major fiscal programs and Chinese currency matters, they might receive guidance from the Office of the President. The capable Treasury staff must work within these guidelines when preparing the reports.

Treasury officials have a natural and understandable reluctance to keep their exchange rate policy cards close to their vest and prefer to not telegraph their intentions to the markets and to maintain maximum room for maneuver in international negotiations. It would not be in the interest of the country or Congress to require Treasury to give advanced warning of or commitment to, for example, exchange market intervention. Nonetheless, there is a middle ground between repackaging information that is already widely known and giving advance warning of policy changes or operations. Treasury can provide more useful and novel analysis without tipping its hand tactically.

First, the Treasury can provide more information (though not complete information) on past events, negotiations, and interlocutors. It can provide more details on negotiations within the G-7 and other financial forums, as well as the bilateral surveillance consultations with the IMF. It can be more frank about the positions of other players on policy questions of interest to the United States, such as the reluctance of the Europeans to press China more strongly for revaluation (Taylor 2007). The department must safeguard the confidence of its foreign counterparts, but this condition nonetheless leaves room for more transparency.

Second, Treasury could provide more analysis of the economic tradeoffs involved in exchange rate policy decisions. A clear statement about these tradeoffs would be a contribution to debate in this field, even if the report were agnostic with respect to the choices.

Third, the reports would benefit from more analysis about the relationships between the exchange rate and monetary and fiscal policies, the endogeneity/exogeneity of the exchange rate, and the instances when the exchange rate becomes disconnected from the economic fundamentals (as had the dollar/euro rate in mid-2000).

Fourth, needless to say, Treasury must revise the criteria by which it determines manipulation (see below).

Finally, Treasury should be more punctual in the submission of its report to Congress. Of the 38 reports required by the act since October 1988, 4 reports were missed entirely. None of the 34 reports that were submitted were received before the technical deadlines of October 15 and April 15, and only 13 of those reports were received less than a month late (table 1). The overshooting of the deadline is all the more significant when the report is lagged.

CONGRESSIONAL FOLLOWUP

To underscore the role of Congress in oversight and to bolster Treasury's incentive to take the report seriously, the 1988 act established that ". . . the Secretary shall appear, if requested, before both committees to provide testimony on these reports." The record of congressional follow-up is summarized in table 2. The banking committees have been more interested in holding hearings on the reports in some periods than in others. During 1988 to 1994, the committees convened 11 hearings. Between January 2002 and May 2007, 7 follow-up hearings were held, 5 by the banking committees and 2 by the House Ways and Means Committee. Of the 34 reports Treasury submitted in total, congressional committees or their subcommittee have held a combined total of 18 sets of hearings on 20 days since 1988. The banking committees thus followed up less than half of the reports with hearings, the Senate Banking Committee far more often than its House counterpart.

Committees also held hearings on exchange rate and other international financial matters that were not directly connected to Treasury reports. On the crises in Mexico, Asia, Russia, and Argentina, at least 18 hearings were held on 28 days. Committees have also held several additional hearings on Chinese exchange rate policy. While these were formally separate from the follow-up to Treasury reports, they constitute congressional oversight of exchange rate policy recently. They also account in part for the absence of direct follow-up on the reports during 1995–2001.

Party control of the chamber provides a more complete explanation for the hiatus in follow-up hearings during 1995–2001. Under Democratic control, Senators William Proxmire and Donald Riegle chaired the Senate Banking Committee during the early years of these reports. Republican Senators Alfonse D'Amato and then Phil Gramm succeeded them as chairmen of the banking committee in the 104th, 105th, and 106th Congresses. On the House side, Reps. Fernand St. Germain and Henry Gonzalez chaired the banking committee under Democratic control. They were replaced by Republican Rep. James Leach in 1995 and then Rep. Michael Oxley in 2001. The Republican chairmen in both chambers showed little interest in follow-up hearings on the exchange rate reports. Senator Paul Sarbanes resumed the hearings before the Senate Banking Committee when he assumed the chairmanship in the 107th Congress (2001), but the House Committee on Financial Services, as it was renamed, remained in Republican control and conducted comparatively little follow-up on the reports.

The substantive focus of these hearings evolved accordingly. During the early years, members of Congress questioned Treasury officials closely on their findings of manipulation. Their discussions sometimes appeared to be choreographed "good cop, bad cop" routines, wherein the committee members would press Treasury to in turn press the NIEs for appreciation in the expectation that the Asian press would duly report these encounters within the target countries. During the early period, Treasury officials

supported the reporting and oversight process. Secretary Nicholas F. Brady and Undersecretary Mulford praised the reporting process. But their successors were (considerably) less supportive. By the late1990s, the tardiness of the report became a source of friction when Senator Sarbanes rebuked the Treasury sternly for failure to meet the statutory deadlines.

During the 2002–07 period, China and its exchange rate regime dominated the hearings. Members repeatedly sought explanations as to why Treasury refused to cite the country for manipulation, prodded officials for the criteria they used when deciding, and were largely unsatisfied with the responses (see the section on China above). Mann and Ornstein (2006) have prominently criticized the Republican Congress for failing to exercise oversight of the executive branch under the Bush II administrations. But on the issue of Chinese exchange rate policy, Republican and Democratic Congresses have scrutinized administration policy.

Frustrated by Treasury nonetheless, Congress turned to tactics that had proved fruitful during the standoff with the Reagan administration in the mid-1980s. The hearings helped to build public consciousness and a case for action on this matter. Congress used the budget process and the GAO to extract more clarity from Treasury regarding its stance on China. Furthermore, members pressed beyond reporting requirements and manipulation provisions of the 1988 act by proposing bills to (a) restrict Treasury's discretion in these circumstances, clarify the concept of manipulation, or transfer these tasks to another agency and (b) introduce trade measures to compensate for the undervaluation of the renminbi. (For an overview of the bills submitted to the 110th Congress, see table 3, as well as Hufbauer 2007. For discussion of present trade politics, see Destler 2007. For earlier bills, see Hufbauer, Wong, and Sheth 2006.) Both of these types of proposals have ratcheted up the pressure on the Paulson Treasury to drive a harder bargain with its Chinese counterparts.

Did Congress play its role in the accountability process effectively? Did it follow up promptly, ask the right questions, and deliver consequences in the instances when Treasury did not report promptly or substantively? When trade issues were prominent, particularly involving countries that manipulated their currencies, members of Congress were fairly diligent in their oversight of Treasury on exchange rates; when trade issues have not been prominent, members have largely neglected this policy domain. Democrats followed up more diligently than their Republican colleagues as chairmen. Members of Congress have typically been reactive, rather than proactive, on these issues. They have sometimes, but not always, asked the right questions.

Congress dropped the ball with respect to two substantive issues in particular: (1) It has given far too little weight to the relative values of the key currencies (e.g., the dollar-euro rate during 1999–2000) and the value of the dollar on an effective basis; and (2) its oversight of the emerging-market currencies, which are emphasized, has not given due consideration to *over*valuation as opposed to undervaluation.

The Mexican peso and Asian financial crises demonstrated that overvalued currencies also pose important risks for the US economy.

RECOMMENDATIONS AND OBSERVATIONS

With most current legislative proposals motivated by congressional discontent with Chinese exchange rate policy, there is a danger that Congress will lose sight of the broader purposes of the 1988 act. As legislation makes its way through Congress and toward the president's desk, legislators should keep the broader aspects of US external monetary policy on the agenda: the overall value of the dollar, especially against other key currencies, the risks of external deficits, prudential limits to external debt, the dollar's role in the international monetary system, and the mandate to cooperate with international partners. With respect to these matters, as well as currency manipulation, the mechanism by which policymakers are held to account should be improved in several respects. The present mandate with respect to exchange rate policy is partial and should be made more complete, and the standards for assessing whether Treasury has met them should be clarified. Treasury should be more timely, complete, and forthcoming in the reporting process (as recommended earlier). And Congress should be more systematic and diligent in its review of Treasury's performance relative to its mandate. These goals should be advanced through several specific measures.

General Objectives

Although Congress has delegated exchange rate policy to the Treasury and Federal Reserve, as discussed at the outset, it has not specified a comprehensive mandate for these agencies in US law. Instead, there is a patchwork of partial mandates, of which the 1988 act is among the more important; but the patchwork as a whole is incomplete. The accountability process would benefit from clarifying the general objectives of US policy in this area and the standards by which Treasury's execution of policy could be assessed. This broad mandate would place the exchange rate in a general equilibrium framework in which its essential purpose is to create consistency among domestic and global markets in goods, services, and capital. The first object of policy is to allow the exchange rate to operate smoothly in this role. This objective will sometimes imply that the United States and its largest partners can make fiscal and monetary policy choices primarily on domestic macroeconomic considerations and treat the exchange rate as the residual. But this is not the case at present, and it will be the case less often in the future than in the past, assuming the US economy continues to be progressively internationalized.

Policymakers must become proactive with respect to the exchange rate in at least three circumstances.[13] First, even when capital markets might be willing to finance large current account deficits in the short term, such deficits might not be sustainable in the long term, and the buildup of external debt could be risky or inappropriate. Prudential limits on these external variables, with the exchange rate serving as the intermediate variable, should guide domestic choices on fiscal and monetary policies (and the macroeconomic policy choices of partners). Second, foreign exchange markets sometimes become unhinged from the economic fundamentals at home and abroad. When exchange rates become "exogenous," in the jargon of economists, there may be a case for government action in the markets, directly, through declarations or intervention, or indirectly via changes in macroeconomic policy. Third, when foreign governments intervene directly or indirectly, the exchange rate is, by definition, not fully market-determined. In such cases, US policymakers must ask whether foreign intervention is consistent with the interests of the US and world economies and, if they find that it is not, they should consider countervailing action.

In its general mandate, Congress should make clear that it expects executive agencies to (a) assess whether these circumstances apply and, if they do, (b) recommend or take appropriate action. This would clarify the standards by which Treasury's broad mandate would be assessed and serve as a context for the specific mandate to target manipulation.

Current Account Balances

The attention in the 1988 act to bilateral trade imbalances between the United States and the potential manipulator was a mistake. International fragmentation of the production process and multilateralization of trade make bilateral imbalances nearly meaningless. Any basic university course in international economics will teach that a country's overall current account balance should be the focus of policy analysis. China is a case in point: A substantial revaluation of the renminbi would benefit producers in other Asian countries, to the extent these countries did not match the Chinese currency move, as well as US producers. A Chinese revaluation is desirable because it will reduce China's large and growing global current account surplus, not because of its impact on the bilateral imbalance with the United States. The US global current account deficit would also improve; this improvement, not the change in the bilateral trade deficit with China, could raise American growth and employment.

13. The literature on this subject is broad. See Williamson (2000, 2007) among other useful works.

Symmetry

The current language of the 1988 act is asymmetrical: Treasury is directed to review and cite countries for manipulating exchange rates for unfair advantage in trade—that is, undervaluation. The department is not directed to do so for countries that maintain an overvalued currency. Sustained overvaluation, however, can pose risks and costs for the US economy that are just as significant as the risks associated with undervaluation. The focus on undervaluation in the 1988 act tends to be more relevant currently, given the persistent US current account deficit and the substantial buildup of external debt. But such legislation should be written for the full range of contingencies and should not convey a mercantilistic preoccupation. Therefore, Congress should rewrite the language of the act to be symmetrical.

Manipulation

Some of the pieces of legislation currently under consideration by Congress introduce the concept of "misalignment" as well as "manipulation." It would not be desirable to completely replace the latter with the former, for two reasons. First, the criteria for defining manipulation are generally more concrete than those defining misalignment. While some instances of misalignment can be clearly identified, others do not command scientific consensus. Second, a country can experience a misalignment without being responsible for it. In many cases the exchange rate has simply lost its moorings, become unhinged from the economic fundamentals. While it might be desirable for governments to act to bring the rate into alignment in such cases, requiring governments to do so would be tantamount to introducing a new exchange rate regime and is well beyond the intent of Congress at the moment. A country should have to be shown to (a) manipulate the exchange rate and (b) maintain a misalignment to become the target of US authorities for negotiations and possible countermeasures.

"Manipulation" should also be defined more clearly. The new language should be consistent with the spirit of the IMF language without becoming immobilizing through obscure and unnecessary requirements about intent. The IMF cannot simply take a government's statement of intent at face value; ultimately, as the IMF general counsel has recently reiterated, the Fund itself must reach its own conclusion on the matter (IMF 2006; for a discussion of the IMF exchange rate rules, see Goldstein 2005b and 2007 and Mussa 2005). The US government must do the same. The new US legislation can reinforce the IMF, contribute to the smooth operation of the international monetary system, and enhance Treasury accountability to Congress by closing the "intent" loophole for exchange rate manipulation. Legislation should target countries that manipulate simply "with the effect of preventing balance of payments adjustment."

US legislation should adhere closely to the IMF Guidelines for Exchange Rate Policy, which were revised in June 2007 (see appendix C and, for the full document, IMF 2007). Intended to operationalize the Article IV obligations, those guidelines specify four principles and seven policy actions that are either prohibited or could indicate a need for special consultations with the member on its exchange rate policy. One of the indicators, foreign exchange intervention, deserves special emphasis, while the remaining indicators should remain part of a separate basket. Thus, new legislation can provide for the finding of manipulation in one of two ways.

First, foreign exchange intervention that is (a) large in scale, (b) protracted over two or three years, (c) consistently in one direction, and (d) perpetuates or accentuates a significant current account imbalance should alone qualify as manipulation. Such intervention would clearly indicate that the relevant monetary authority would be preventing the currency from moving toward a rate that would contribute to current account adjustment. (Relatedly, see John Williamson's reference rate proposal (2007).) This criterion has the benefit of concreteness, avoids debates about intent, and focuses on a dominant instrument by which some monetary authorities have blocked adjustment in practice. But this criterion has the disadvantage of being relatively narrow; once it were adopted some governments might be tempted to evade a manipulation designation by relying more heavily on other means of managing the exchange rate. So legislation should provide for manipulation to be found through a second route as well.

The second route would be a basket of the remaining indicators in the IMF guidelines, the presence of two or more of which could create a presumption that manipulation had taken place:

- an unsustainable level of official or quasiofficial borrowing (by a deficit country) or lending (by a surplus country);
- restrictions on current transactions or payments and restrictions on or incentives for capital inflows or outflows;
- monetary or other financial policies that provide abnormal encouragement or discouragement to capital flows;
- fundamental exchange rate misalignment;
- large and prolonged current account imbalances; and
- large external vulnerabilities arising from private capital flows.

Legislation should mandate that Treasury assess the key potential offenders along these presumptive indicators within a comprehensive analysis of the country's macroeconomic situation. Although Treasury should not be directed to apply the indicators mechanistically, placing them within the law would (a) foster convergence with IMF guidelines, (b) create more consistency on the criteria used in the exchange

rate reports, and (c) make it more difficult for the report to avoid a manipulation finding in blatant cases. Finally, if Congress continues to be dissatisfied with the application of manipulation criteria, it is perfectly within its constitutional powers to consider delegating the job to another agency.

Relationship to the IMF

The manipulation sections in the 1988 act and IMF Articles of Agreement are important to the proper functioning and legitimate governance of the international economic system as a whole. Limitations on currency manipulation help to maintain widespread acceptance of that system as fair to the participants in globalization. Most international institutions such as the IMF, however, are congenitally incapable of enforcing hard rules by themselves, because, among other reasons, they often entrust enforcement to bodies in which the targets and potential targets are members.

When hard rules are effective in the international realm, they are generally supported by national measures. Within the United Nations, Security Council decisions are enforced by national military units placed at the disposal of the United Nations for a specific contingency. Within the WTO, dispute settlement decisions are given force by authorized retaliation on the part of the contracting parties. Within the IMF, however, no national instruments are specifically provided for reinforcing the rules of the institution and the decisions of its governing bodies. Its principal instruments to compel cooperation are denial of funding—which does not apply to a country accumulating massive foreign exchange reserves by undervaluing its currency but which potentially applies to a country maintaining an overvalued rate—denial of voting rights, and, in extremis, expulsion from the organization. The June 2007 revision to the exchange rate policy guidelines took a modest step in the right direction by giving more emphasis to the importance of misalignment but probably does not make these provisions more enforceable. Antimanipulation legislation in the United States should be deliberately designed to provide a monetary analog to national enforcement instruments at the disposal of other international institutions.

Reinforcing the IMF in this way does not mean that the United States cannot act unless the Fund finds that a particular country has manipulated its currency. Although the IMF has several advantages as a forum in which to address currency questions, the United States has not and should not fully outsource this element of exchange rate policy to the Fund; it has retained and should continue to retain unilateral means of action. However, it should use unilateral instruments in ways that are consistent with the rules and principles of the Fund and US obligations under the articles. Under this scenario, US authorities would be acting in support of the Fund principles when the bodies of the Fund were unable or unwilling to do so. We hope such circumstances will be rare, but the Fund's recent posture toward Chinese currency policy shows that they do arise.

Systemic Mandate

If US exchange rate legislation pursues narrow, mercantilistic interests, then it will neither deserve nor receive international support. US policy objectives under the amended version of the 1988 act must be in the interest of the system as a whole. Fortunately, the enlightened interest of the United States and the interest of the system coincide, while not perfectly, at least substantially. US actions to combat manipulation under the act must also have compelling reasons to be in the interest of the target as well as that of third countries—which is currently the case for China.[14] These will support the legitimacy of US actions under the legislation. Just as Treasury must use its Exchange Stabilization Fund in ways that are consistent with its obligations in the IMF, Treasury should also have a mandate to adopt an internationalist perspective in exchange rate policy more broadly.

Specifically, Congress should retain and enhance the obligation in the 1988 act (section 3003) to pursue international coordination. Successful coordination of course requires willing partners. (For a review of coordination over recent decades, see Truman 2004.) But if a partner makes a serious offer as part of a coordination package, for example, to smooth current account adjustment, Treasury should have to explain any decision to reject. Congress should oversee this provision, and foreign governments should know that Congress will assess Treasury's decisions in light of this mandate.[15]

International Equity

When designing US legislation, the authors must envision a world in which the major economic partners of the United States also adopt the same laws. They must be guided by the golden rule: Congress should not adopt legislation that establishes incentives and reinforces rules for other countries that the United States would not be willing to live by itself. Fortunately, the United States is nowhere near qualifying for manipulation under the terms of its own 1988 act nor is it likely to do so in the foreseeable future. But the legislation currently being drafted should be circumspect, targeting exchange rate policies that are genuinely injurious to the international system, not simply the United States, and conflict with the rules and norms of international institutions such as the IMF and WTO. Jettisoning the focus on the bilateral trade balance with the United States in favor of countries' global current account balances would be helpful in this regard. Symmetrical treatment of the exchange rate, citing overvaluations as well as undervaluations, would give greater balance to US policy and strengthen the case that targeting

14. Lardy (2006), for example, argues that exchange rate appreciation would advance the stated goals of senior Chinese policymakers to move toward consumption-driven growth. See also Lardy 2005.

15. On the need to establish mandates for domestic agencies to cooperate internationally, see Slaughter (2004). Naturally, foreign partners of the United States should introduce similar mandates as well.

manipulation was in the general interest (as opposed to US mercantile interest). The US government can also acknowledge that its own policies are a source of external imbalances, which it can do without withdrawing demands that others cease manipulation. If other countries adopt copycat legislation, then the integrity of the multilateral system will be doubly reinforced.

Consolidate Reports

The US government produces multiple reports related to exchange rate policy. The Federal Reserve Bank of New York produces quarterly statements on foreign exchange operations, published in the *Federal Reserve Bulletin*. Treasury produces not only the reports mandated by the 1988 act but also annual reports on the ESF publicly, monthly reports on ESF transactions to the banking committees privately, and monthly reserve data on the Treasury website—among other data. These multiple reports nonetheless collectively (a) downplay, to put it mildly, the burning policy issues of the day, (b) are overlapping, (c) leave gaps, (d) cover different periods, and (e) rarely contain cross references. Congressional oversight and public discourse on exchange rate policy would benefit from a streamlining and consolidation of these multiple reports. These reports need not be combined into one, but this still leaves room for substantial consolidation.

Accountability Requires Resources

Preparing its reports, testimony, and answers to questions of the Congress requires substantial staff time on the part of the Treasury. Congress must be realistic about allocating resources to support accountability if the process is to work well; this cannot be an afterthought. Congress must also devote its own staff resources to follow up on reports and prepare hearings where the secretary and other officials testify. To the extent that Congress cares more about exchange rate policy than it did in the past, its own staff and budget should reflect the shift. Neither Treasury nor the committees of jurisdiction should have to take on greater responsibilities without additional resources.

Executivewide Review

This paper has argued that Treasury's objectives, public discourse, and oversight would all be better served by a more forthcoming approach to the drafting of the exchange rate reports. While the reports mandate specific information, Treasury is not limited to ticking off the requirements minimalistically; the department can also provide a more full-throated analysis that goes beyond the specific requirements of the act. It has recently done so and should continue this trend. International norms of transparency have changed greatly since the 1988 act was drafted and continue to evolve toward greater openness.

Treasury should also lead an executivewide review when developing exchange rate policy and preparing its reports. The need is to engage a broad array of perspectives in policy—producer, consumer, and financial—in policymaking and integrate them into policy statements (Destler and Henning 1989, 158–59; Henning 1994, 353–58). The secretary and senior Treasury officials should have to listen to the views of their counterparts in other departments in such a forum and defend their policy if not amend it (in exchange for Treasury entrée into deliberations within the primary jurisdiction of its counterparts). Congress can usefully insist that Treasury engages in such a review and, if it does not, solicit the views of other agencies in oversight hearings.

Congressional Oversight

Congress has not always been diligent in its oversight of exchange rate policy. The institutional separation of the consideration of currency and trade matters in the committees responsible for banking and trade, respectively, is one reason for the lapses in follow-up. This division of labor contributed to the lag in congressional activism during the mid-1980s, for example, and complicates Congress's follow-up on the broad international economic policy and specific manipulation issues in Treasury's reports. Making the linkage between trade, finance, and exchange rates is essential to understanding and redressing manipulation. To address this problem, Destler and I (1989, 155–58) recommended that the banking committee invite representatives from the trade and budget panels to participate in oversight hearings on the reports. The committees did this in several instances, both during the early years of the reporting process and in recent hearings devoted to China—but not systematically. Congress should now institutionalize multicommittee participation in oversight of exchange rate and international monetary policies by regularly inviting members of the trade and budget committees to hearings of the banking committee. Multicommittee participation would help to integrate financial, trade, and macroeconomic concerns in the oversight process, give greater continuity to oversight over time, and help to render oversight more proactive and less reactive. It would also help to resolve jurisdictional disputes over trade and currency matters among these committees.

CONCLUSION

Congress long ago wisely delegated authority over exchange rate policy to the Treasury in cooperation with the Federal Reserve. To develop and execute policy effectively, the United States needs a strong Treasury, capable of operating with flexibility in the markets and with broad discretion to cooperate with foreign partners. Extensive delegation, however, carries a reciprocal obligation for transparency, reporting, and accountability. When the US economy was relatively closed to international trade and capital flows,

these agencies could often make and execute exchange rate policy outside the spotlight of Congress and national politics. However, globalization has raised the economic and political stakes associated with the external value of the dollar and highlighted the importance of accountability in this policy area.

This paper finds that the exchange rate policy reporting and oversight process has not worked well at several points since 1988. Both the Treasury and the Congress can better perform their roles in the accountability process. The 1988 act setting the foundations for the accountability mechanism should be reformed. Changes are clearly needed in the provisions regarding currency manipulation—the main focus of the bills currently being advanced in Congress—and are addressed in the recommendations presented here. But the broader purposes of the 1988 act should not be forgotten: reporting and oversight of policy with respect to the broad valuation of the dollar. These recommendations—clarifying the general mandate and elaborating the mechanisms for reporting and oversight—would also reinforce the institutional foundations of democratic accountability with respect to these broader purposes.

APPENDIX A

EXCHANGE RATES AND INTERNATIONAL ECONOMIC POLICY COORDINATION ACT OF 1988

TITLE III INTERNATIONAL FINANCIAL POLICY

SUBTITLE A EXCHANGE RATES AND INTERNATIONAL ECONOMIC POLICY COORDINATION

SECTION 3001 SHORT TITLE

This subtitle may be cited as the "Exchange Rates and International Economic Policy Coordination Act of 1988."

SECTION 3002 FINDINGS

The Congress finds that

(1) the macroeconomic policies, including the exchange rate policies, of the leading industrial nations require improved coordination and are not consistent with long-term economic growth and financial stability;
(2) currency values have a major role in determining the patterns of production and trade in the world economy;
(3) the rise in the value of the dollar in the early 1980s contributed substantially to our current trade deficit;
(4) exchange rates among major trading nations have become increasingly volatile and a pattern of exchange rates has at times developed which contribute to substantial and persistent imbalances in the flow of goods and services between nations, imposing series strains on the world trading system and frustrating both business and government planning;
(5) capital flows between nations have become very large compared to trade flows, respond at times quickly and dramatically to economic and policy changes, and, for these reasons, contribute significantly to uncertainty in financial markets, the volatility of exchange rates, and the development of exchange rates which produce imbalances in the flow of goods and services between nations;
(6) policy initiatives between some trading nations that manipulate the value of their currencies in relation to the United States dollar to gain competitive advantage continue to create serious competitive problems for United States industries;
(7) a more stable exchange rate for the dollar at a level consistent with a more appropriate and sustainable level balance in the United States current account should be a major focus of national economic policy;
(8) procedures for improving the coordination of macroeconomic policy need to be strengthened considerably; and

(9) under appropriate circumstances, intervention by the United States in foreign exchange markets as part of coordinated international strategic intervention effort could produce more orderly adjustment of foreign exchange markets and, in combination with necessary macroeconomic policy changes, assist adjustment toward a more appropriate and sustainable balance in current accounts.

SECTION 3003 STATEMENT OF POLICY

It is the policy of the United States that

1) the United States and the other major industrialized countries should take steps to continue the process of coordinating monetary, fiscal, and structural policies initiated in the Plaza Agreement of September 1985;
2) the goal of the United States in international economic negotiations should be to achieve macroeconomic policies and exchange rates consistent with more appropriate and sustainable balances in trade and capital flows and to foster price stability in conjunction with economic growth;
3) the United States, in close coordination with the other major industrialized countries should, where appropriate, participate in international currency markets with the objective of producing more orderly adjustment of foreign exchange markets and, in combination with necessary macroeconomic policy changes, assisting adjustment toward a more appropriate and sustainable balance in current accounts; and
4) the accountability of the President for the impact of economic policies and exchange rates on trade competitiveness should be increased.

SECTION 3004 INTERNATIONAL NEGOTIATIONS ON EXCHANGE RATE AND ECONOMIC POLICIES

(a) Multilateral Negotiations—The President shall seek to confer and negotiate with other countries
(1) to achieve
(A) better coordination of macroeconomic policies of the major industrialized nations; and
(B) more appropriate and sustainable levels of trade and current account balances, and exchange rates of the dollar and other currencies consistent with such balances; and
(2) to develop a program for improving existing mechanisms for coordination and improving the functioning of the exchange rate system to provide for long-term exchange rate stability consistent with more appropriate and sustainable current account balances.

(b) Bilateral Negotiations—The Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. If the Secretary considers that such manipulation is occurring with

respect to countries that (1) have material global current account surpluses; and (2) have significant bilateral trade surpluses with the United States, the Secretary of the Treasury shall take action to initiate negotiations with such foreign countries on an expedited basis, in the International Monetary Fund or bilaterally, for the purpose of ensuring that such countries regularly and promptly adjust the rate of exchange between their currencies and the United States dollar to permit effective balance of payments adjustments and to eliminate the unfair advantage. The Secretary shall not be required to initiate negotiations in cases where such negotiations would have a serious detrimental impact on vital national economic and security interests; in such cases, the Secretary shall inform the chairman and the ranking minority member of the Committee on Banking, Housing, and Urban Affairs of the Senate and of the Committee on Banking, Finance and Urban Affairs of the House of Representatives of his determination.

SECTION 3005 REPORTING REQUIREMENTS

(a) Reports Required—In furtherance of the purpose of this title, the Secretary, after consultation with the Chairman of the Board, shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate, on or before October 15 each year, a written report on international economic policy, including exchange rate policy.

The Secretary shall provide a written update of developments six months after the initial report. In addition, the Secretary shall appear, if requested, before both committees to provide testimony on these reports.

(b) Contents of Report—Each report submitted under subsection (a) shall contain

- (1) an analysis of currency market developments and the relationship between the United States dollar and the currencies of our major trade competitors;
- (2) an evaluation of the factors in the United States and other economies that underline conditions in the currency markets, including developments in bilateral trade and capital flows;
- (3) a description of currency intervention or other actions undertaken to adjust the actual exchange rate of the dollar;
- (4) an assessment of the impact of the exchange rate of the United States dollar on
  - (A) the ability of the United States to maintain a more appropriate and sustainable balance in its current account and merchandise trade account;
  - (B) production, employment, and noninflationary growth in the United States;
  - (C) the international competitive performance of United States industries and the external indebtedness of the United States;
- (5) recommendations for any changes necessary in United States economic policy to attain a more appropriate and sustainable balance in the current account;
- (6) the results of negotiations conducted pursuant to section 3004;
- (7) key issues in United States policies arising from the most recent consultation requested by the International Monetary Fund under article IV of the Fund's Articles of Agreement; and
- (8) a report on the size and composition of international capital flows, and the factors contributing to such flows, including, where possible, an assessment of the impact of such flows on exchange rates and trade flows.

SECTION 3006 DEFINITIONS

As used in this subtitle:

(1) Secretary—The term "Secretary" means the Secretary of the Treasury.
(2) Board—The term "Board" means the Board of Governors of the Federal Reserve System.

APPENDIX B

ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND

ARTICLE IV OBLIGATIONS REGARDING EXCHANGE ARRANGEMENTS

SECTION 1 GENERAL OBLIGATIONS OF MEMBERS

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth , and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

(i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;

(ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;

(iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and

(iv) follow exchange policies compatible with the undertakings under this Section….

SECTION 3 SURVEILLANCE OVER EXCHANGE ARRANGEMENTS

(a) The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article.

(b) In order to fulfill its functions under (a) above, the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies. . . .

APPENDIX C

IMF GUIDELINES FOR EXCHANGE RATE POLICY

EXCERPTS FROM EXECUTIVE BOARD DECISION NO. 5392-(77/63), APRIL 29, 1977, AS AMENDED THROUGH JUNE 15, 2007

PART II PRINCIPLES FOR THE GUIDANCE OF MEMBERS' POLICIES UNDER ARTICLE IV, SECTION 1

13. Principles A through D set out below are adopted pursuant to Article IV, Section 3 (b) and are intended to provide guidance to members in the conduct of their exchange rate policies in accordance with their obligations under Article IV, Section 1. In accordance with Article IV, Section 3 (b), these Principles are designed to respect the domestic social and political policies of members. In applying these principles, the Fund will pay due regard to the circumstances of members and, when determining whether a member is following these principles, the Fund will give the member the benefit of any reasonable doubt.

14. Principle A sets forth the obligation contained in Article IV, Section 1(iii); further guidance on its meaning is provided in the Annex to this Decision. Principles B through D constitute recommendations rather than obligations of members. A determination by the Fund that a member is not following one of these recommendations would not create a presumption that that member was in breach of its obligations under Article IV, Section 1.

A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

B. A member should intervene in the exchange market if necessary to counter disorderly conditions, which may be characterized *inter alia* by disruptive short-term movements in the exchange value of its currency.

C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.

D. A member should avoid exchange rate policies that are pursued for domestic reasons and result in external instability, including fundamental exchange rate misalignment.

15. In its surveillance of the observance by members of the principles set forth above, the Fund shall consider the following developments as among those which would require thorough review and might indicate the need for discussion with a member:

(i) protracted large-scale intervention in one direction in the exchange market, particularly if accompanied by sterilization;

(ii) official or quasi-official borrowing that either is unsustainable or brings unduly high liquidity risks, or excessive and prolonged official or quasi-official accumulation of foreign assets, for balance of payments purposes;

(iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of

payments purposes, of restrictions on, or incentives for, current transactions or payments, or
(b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;

(iv) the pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows;

(v) fundamental exchange rate misalignment;

(vi) large and prolonged current account deficits or surpluses; and

(vii) large external sector vulnerabilities, including liquidity risks, arising from private capital flows.

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Table 1 Overview of the US Treasury's reports on exchange rate policies, 1988–2007

Report number	Date due	Date submitted	Notable topics treated*	Countries reviewed for manipulation	Countries cited for manipulation	Congressional follow-up/date
1	October 15, 1988	October 24, 1988	▪ International economic policy coordination ▪ US fiscal adjustment ▪ Asian newly industrialized economies (NIEs) current account surpluses ▪ Structural reforms in developing countries ▪ Manipulation	Korea, Taiwan, Hong Kong, Singapore	Korea, Taiwan	None
2	April 15, 1989	April 1989	▪ Slower pace of external adjustments ▪ US fiscal adjustment ▪ G-7 exchange market cooperation ▪ Manipulation	Korea, Taiwan	Korea, Taiwan	Senate Banking, 101st Congress, 1st Session, May 5
3	October 15, 1989	October 27, 1989	▪ Inflationary pressures (Japan, Germany) ▪ US budget and current account deficit ▪ Bilateral exchange rate negotiations with Asian NIEs on financial policies and capital market restrictions	Korea, Taiwan	Korea	Senate Banking, International Subcommittee/ November 16; House Banking, Subcommittee on Development, Finance, Trade and Monetary Policy, 101st Congress, 1st session, October 31
4	April 15, 1990	April 18, 1990	▪ Reduction in global external imbalances ▪ Reforms in Eastern Europe ▪ Depreciation of yen ▪ Asian NIEs current account surpluses ▪ Manipulation	Taiwan, Korea	None	Senate Banking/ April 19; House Banking, 101st Congress, 2nd Session, May 9
5	October 15, 1990	December 3, 1990	▪ The Gulf crisis, oil price, inflationary pressures and twin risks ▪ Exchange market coordination ▪ Unification of Germany ▪ US fiscal adjustment ▪ Economic and exchange rate development in Asian NIEs ▪ Manipulation	Korea, Taiwan, China	None	None
6	April 15, 1991	May 1991	▪ Slower global growth ▪ G-7 economic policy coordination and the Uruguay Round ▪ High real interest rates ▪ Economic and exchange rate development in NIEs ▪ Manipulation	Korea, Taiwan, China	None	Senate Banking, 102nd Congress, 1st Session, May 16

* The reports generally treat the subjects of (1) World Economic Performance and Prospects, subdivided into separate treatments of industrial countries and emerging markets, (2) Exchange Market Developments, (3) US Economy and Balance of Payments, (4) International Coordination, and (5) Currency Manipulation, although the emphasis and organization of these treatments vary considerably over the years. This column lists the treatments within these substantive headings that were especially noteworthy or exceptional in light of the contemporary international monetary issues.

Table 1 *(continued)*

Report number	Date due	Date submitted	Notable topics treated	Countries reviewed for manipulation	Countries cited for manipulation	Congressional follow-up/date
7	October 15, 1991	November 1991	▪ External imbalances (especially Japan) ▪ Interest rates (especially Germany) ▪ Economic reform in Eastern Europe, Latin America ▪ Uruguay Round ▪ Asian NIEs current account surpluses ▪ Manipulation	Korea, Taiwan, China	None	Senate Banking, Subcommittee on International Finance and Monetary Policy, 102nd Congress, 1st Session, November 12
8	April 15, 1992	May 12, 1992	▪ Decrease in inflation and strong growth ▪ G-7 fiscal deficits ▪ High real interest rates (especially Germany) ▪ Asian NIEs current account surpluses, economic and exchange rate developments ▪ Manipulation	Korea, Taiwan, China	Taiwan, China	Senate Banking, Subcommittee on International Finance and Monetary Policy, 102nd Congress, 2nd Session, May 12
9	October 15, 1992	December 1992	▪ Global expansion ▪ Japan's fiscal stimulus ▪ Better understanding of global capital markets needed ▪ Bilateral exchange rate negotiations with Asian NIEs ▪ Manipulation	Korea, Taiwan, China	Taiwan, China	None
10	April 15, 1993	May 23, 1993	▪ Weak growth in Japan and Europe ▪ Need to intensify international policy coordination ▪ US fiscal deficit; Japan's current account surplus ▪ Further trade liberalization ▪ Exchange rate volatility ▪ Manipulation	Korea, Taiwan, China	China	Senate Banking, 103rd Congress, 1st Session, May 23
11	October 15, 1993	November 23, 1993	▪ Increasing redirection of US exports to Asian NIEs, slower exports to Japan and Europe ▪ Slow growth in Japan and Europe ▪ US fiscal adjustment, uncertain budgetary implications of proposed health care reform ▪ Yen appreciation and Exchange Rate Mechanism (ERM) crisis ▪ Manipulation	Korea, Taiwan, China	China	None
12	April 15, 1994	July 21, 1994	▪ Low inflation but high unemployment ▪ Expansion through adequate policy mix ▪ Depreciation of dollar against yen and deutsche mark ▪ Capital controls in Asian NIEs ▪ Manipulation	Korea, Taiwan, China	China	Senate Banking, 103rd Congress, 2nd Session, July 21
13	October 15, 1994	January 3, 1995	▪ Global recovery ▪ US current account and budget deficit ▪ Strong dollar policy ▪ Capital controls in Asian NIEs ▪ Manipulation	Korea, Taiwan, China	None	None

Table 1 *(continued)*

Report number	Date due	Date submitted	Notable topics treated	Countries reviewed for manipulation	Countries cited for manipulation	Congressional follow-up/date
14	April 15, 1995	August 25, 1995	▪ Low growth in Japan ▪ Exchange rate volatility and depreciation of dollar ▪ US current account deficit ▪ Mexico crisis ▪ Capital controls in Asian NIEs ▪ Liberalization in China	Korea, Taiwan, China	None	None
15	October 15, 1995	December 15, 1995	▪ Depreciation of dollar ▪ Exchange rate volatility ▪ US fiscal deficit ▪ Capital controls ▪ Inflation in Asian NIEs	Korea, Taiwan, China, Malaysia	None	None
16	April 15, 1996	August 9, 1996	▪ G-7 recovery ▪ Appreciation of dollar ▪ Growth in Latin America ▪ Exchange restrictions and capital controls in Asian NIEs	Taiwan, China, Singapore	None	None/extensive follow-up elsewhere
17	October 15, 1996	February 21, 1997	▪ Exchange rate stability ▪ Moderate global growth ▪ Reduction of Japan's current account surplus	Taiwan, China, Singapore	None	None
18	April 15, 1997	Not issued				
19	October 15, 1997	Not issued				
20	April 15, 1998	Not issued				
21	October 15, 1998	January 22, 1999[a]	▪ Asian financial crisis ▪ US current account deficit ▪ Appreciation of dollar ▪ Move to floating rates in Asia	Taiwan, China, Singapore, Malaysia	None	None/extensive follow-up elsewhere
22	April 15, 1999	September 3, 1999[b]	▪ Economic weakness in emerging markets, Europe, and Japan ▪ Strong net capital inflow in US ▪ US current account deficit ▪ Repeats secretary's "strong dollar" language	Korea, Taiwan, China, Singapore, Malaysia	None	None
23	October 15, 1999	Joined with a subsequent report				
24	April 15, 2000	March 9, 2000[c]	▪ US current account deficit ▪ Strong net capital inflow in US ▪ Structural and financial sector reforms in Japan	Korea, Taiwan, China, Malaysia	None	None

Table 1 *(continued)*

Report number	Date due	Date submitted	Notable topics treated	Countries reviewed for manipulation	Countries cited for manipulation	Congressional follow-up/date
25	October 15, 2000	January 18, 2001	▪ Strong growth in the US ▪ Higher oil prices and acceleration of US imports ▪ Structural and financial-sector reforms in Japan	Korea, Taiwan, China, Malaysia	None	None
26	April 15, 2001	June 22, 2001	▪ Slowed US and global growth ▪ Strong net capital inflow in US ▪ Money laundering	Korea, Taiwan, China, Malaysia, Russia	None	None
27	October 15, 2001	October 24, 2001	▪ Slow US and global growth ▪ Depreciation in capital flows to and from US ▪ Money laundering and terrorist financing	Korea, Taiwan, China, Malaysia, Russia	None	None
28	April 15, 2002	April 24, 2002	▪ 9/11 attacks ▪ Export and import contraction in G-7 ▪ Strong net capital inflow in US	Taiwan, China, Malaysia	None	Senate Banking, 107th Congress, 2nd Session, May 1
29	October 15, 2002	November 12, 2002	▪ Continued trend towards exchange rate flexibility ▪ US current account deficit	Taiwan, China, Malaysia	None	None
30	April 15, 2003	May 6, 2003	▪ US current account deficit ▪ Depreciations in Latin America	China, Malaysia	None	None
31	October 15, 2003	October 30, 2003	▪ Agenda for growth ▪ High oil prices ▪ China's surplus	China	None	Senate Banking, 108th Congress, 1st Session, October 30
32	April 15, 2004	April 15, 2004	▪ US current account and capital account ▪ Japan's recovery ▪ China's exchange rate regime	China	None	None
33	October 15, 2004	December 3, 2004	▪ US current account and capital account ▪ Rising interest rates and oil prices ▪ Japan's exchange rate interventions ▪ China's exchange rate regime	China	None	None
34	April 15, 2005	May 17, 2005	▪ External adjustments ▪ Greater exchange rate flexibility (especially Asia) ▪ China's exchange rate regime ▪ China's internal reforms	China	None	Senate Banking, 109th Congress, 1st Session, May 26
35	October 15, 2005	November 27, 2005	▪ US fiscal deficit and low saving rate ▪ Demand-led growth in Japan and Europe ▪ Greater exchange rate flexibility in Asia ▪ Doha round ▪ China's exchange rate regime ▪ IMF to promote exchange rate flexibility	China, Malaysia	None	None

Table 1 *(continued)*

Report number	Date due	Date submitted	Notable topics treated	Countries reviewed for manipulation	Countries cited for manipulation	Congressional follow-up/date
36	April 15, 2006	May 10, 2006	▪ Rising oil prices ▪ China's exchange rate policy ▪ Multilateral approach to reforming China's exchange rate regime	China	None	Senate Banking, 109th Congress, 2nd Session, May 18
37	October 15, 2006	December 19, 2006	▪ Global imbalances ▪ Slow growth in Japan and Europe ▪ Oil prices and oil exporters' economic policies ▪ US fiscal deficit ▪ China's domestic demand, capital account liberalization, and exchange rate regime	China	None	None
38	April 15, 2007	June 13, 2007	▪ Global imbalances ▪ Strong growth in US, Europe, Japan ▪ Oil exporters' economic policies ▪ China's domestic demand, capital account liberalization, and exchange rate regime	China	None	None

a. Period covered: November 1, 1996 to October 31, 1998.
b. Period covered: November 1, 1998 to June 30, 1999.
c. Period covered: July 1, 1999 to December 31, 1999.

Table 2 Congressional hearings on exchange rate reports, 1988–2007

No.	Date	Title	House/Senate	Testimony from Treasury	Outside testimony	Members attending	Subjects of questions
1	May 5, 1989	First Annual Hearing on International Economic and Exchange Rate Policy	Senate Banking, 101st Congress, 1st Session	Nicholas F. Brady, secretary; David C. Mulford, undersecretary for international affairs	None	Riegle (D-MI), Sarbanes (D-MD), Dixon (D-IL), Kerry (D-MA), Garn (R-UT), Heinz (R-PA), Bond (R-MI), Roth (R-DE), and Pressler (R-SD)	▪ Jurisdiction (Super 301; GATT) ▪ Other than exchange rate manipulation ▪ Impact on agriculture ▪ Net foreign debt ▪ Antidumping actions ▪ Capital market liberalization (Japan)
2	May 12, 1989	Currency Manipulation	Senate Finance, Subcommittee on International Trade, 101st Congress, 1st Session	David C. Mulford, undersecretary	Allan I. Mendelowitz, GAO; John Williamson, IIE; and C. Fred Bergsten, IIE	Baucus (D-MT)	▪ Progress on negotiations with Korea and Taiwan ▪ Integrate trade with currency negotiations? ▪ Distinction between currency undervaluation and trade barriers
3	October 31, 1989 November16, 1989	Treasury Department's Report on International Economic and Exchange Rate Policy Deterioration in the Current Account Balance: The Efficacy of Intervention	House Banking, Subcommittee on Development, Finance, Trade and Monetary Policy, 101st Congress, 1st Session	David C. Mulford, undersecretary	Manuel H. Johnson, Federal Reserve; Stephen Cooney, NAM; Robert Morris, USCIB; C. Randall Henning, IIE; Robert Solomon, Brookings; and John Williamson, IIE	Fauntroy (DC), LaFalce (D-NY), Leach (R-IA), McCandless (R-CA), Neal (D-MA), Saiki (R-HI), Ridge (R-PA), Kennedy II (D-MA), McMillen (D-MD), Hoagland (D-NE), Flake (R-AZ), Pease (D-OH)	▪ Trade deficit, budget deficit ▪ Germany's trade surplus ▪ Strong dollar policy, yen-dollar, mark-dollar ▪ Issuing Treasury obligations in other currencies? ▪ Benefits of (coordinated) exchange rate intervention; ▪ "Manipulation" of the dollar ▪ Exchange Stabilization Fund ▪ Treasury–Federal Reserve cooperation on intervention
4	November 16, 1989	Review of the Treasury's Second Annual Report on International Economic and Exchange Rate Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 101st Congress, 1st Session	David C. Mulford, undersecretary	Manuel H. Johnson, vice chairman, Federal Reserve	Sarbanes (D-MD), Heinz (R-PA)	▪ (Lack of) progress on negotiations with Korea ▪ Tie manipulation issue with trade talks (Korea)? ▪ US, German, and Japanese interest rates ▪ Domestic inflation and dollar policy ▪ OECD vs. G-7 or IMF as fora for policy coordination
5	April 19, 1990	Department of the Treasury's Report on International Economic and Exchange Rate Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 101st Congress, 2nd Session	David C. Mulford, undersecretary	Horst Schulmann, IIF; and Edward L. Hudgins, Heritage Foundation	Sarbanes (D-MD), Heinz (R-PA), Dixon (D-IL), Shelby (R-AL)	▪ Impact of German unification ▪ Depreciation of yen ▪ Japan's capital controls ▪ Why China not cited in report ▪ Effectiveness of G-7 meetings

Table 2 *(continued)*

No.	Date	Title	House/Senate	Testimony from Treasury	Outside testimony	Members attending	Subjects of questions
6	May 9, 1990	Proposed US Participation in the European Bank for Reconstruction and Development (EBRD), and Update on Exchange Rate Report[a]	House Banking, Subcommittee on Development, Finance, Trade and Monetary Policy 101st Congress, 2nd Session	David C. Mulford, undersecretary	None	Fountroy (DC, chair)	▪ Trade deficit ▪ Impact on jobs
7	May 16, 1991	Treasury Department's Report on International Economic and Exchange Rate Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 102nd Congress, 1st Session	David C. Mulford, undersecretary	C. Fred Bergsten, IIE	Sarbanes (D-MD), Riegle (D-MI), and Dixon (D-IL)	▪ Foreign vs. domestic policy goals ▪ China: manipulation vs. most-favored nation (MFN) ▪ Strong dollar ▪ G-7 interest rates (esp. Japan vs. US) ▪ Korea's and Taiwan's capital restrictions
8	November 12, 1991	Department of the Treasury's Report on International Economic and Exchange Rate Policy: 1991	Senate Banking, Subcommittee on International Finance and Monetary Policy, 102nd Congress, 1st Session	David C. Mulford, undersecretary	None	Sarbanes (D-MD)	▪ Korea, Taiwan, China ▪ Manipulation definitional issues ▪ Global economic growth ▪ Trade deficit ▪ European stance vs. US stance on trade with China
9	May 12, 1992	Treasury Report on Exchange Rates and International Monetary Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 102nd Congress, 2nd Session	David C. Mulford, undersecretary	None	Riegle (D-MI), Sarbanes (D-MD), Dixon (D-IL), Graham (D-FL), Sanford (D-NC), Wirth (D-CO), Mack (R-FL), Domenici (R-NM), and Landon Kassebaum (R-KS)	▪ Korea, Taiwan, China ▪ Trade surpluses and internal reforms ▪ Brady debt reduction Enterprise to the Americas ▪ Russia Stabilization Fund and General Arrangements to Borrow
10	May 23, 1993	Treasury Department's Biannual Report on International Economic and Exchange Rate Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 103rd Congress, 1st Session	Lawrence H. Summers, undersecretary	None	Riegle (D-MI), Mack (R-FL), and Sasser (D-TN)	▪ China: manipulation vs. MFN ▪ Russia: currency board? ▪ China: Super 301 and/or Ex-Im War Chest? ▪ Fair Trade in Financial Service Act (Japan) ▪ Recession in Europe, Japan
11	July 21, 1994	Treasury Department's Spring 1994 Report on International Economic and Exchange Rate Policy	Senate Banking, 103rd Congress, 2nd Session	Lawrence H. Summers, undersecretary	None	Riegle (D-MI), Sasser (D-TN), D'Amato (R-NY)[b], Bond (R-MI), Mack (R-FL), Domenici (R-NM), and Sarbanes (D-MD)	▪ China: manipulation vs. MFN ▪ US interest rates and capital account development ▪ NAFTA ▪ Decline of yen

Table 2 *(continued)*

No.	Date	Title	House/Senate	Testimony from Treasury	Outside testimony	Members attending	Subjects of questions
12	May 1, 2002	US Department of the Treasury's Report to Congress on International Economic and Exchange Rate Policy	Senate Banking, 107th Congress, 2nd Session	Paul H. O'Neill, secretary	Richard L. Trumka, AFL-CIO; Jerry J. Jasinowski, NAM; Bob Stallman, AFBF; C. Fred Bergsten, IIE; Ernest H. Preeg, Manufacturers Alliance; and Steve H. Hanke, Johns Hopkins University	Sarbanes (D-MD), Bunning (R-KY), Johnson (D-SD), Miller (D-GA), Corzine (D-NJ), Akaka (D-HI), Gramm (R-TX), and Ensign (R-NV)	▪ Jobs ▪ Foreign Treasury security holdings; ▪ Importance of current account deficit (O'Neill questioning it)? ▪ Manipulation definitional issues ▪ Dubai Communiqué: need a new Plaza agreement? ▪ Domestic saving rate and capital account
13	October 1, 2003	China's Exchange Rate Regime and Its Effects on the US Economy	House Financial Services Committee, International Subcommittee, 108th Congress, 1st Session	John B. Taylor, undersecretary for international affairs	Rep. Mark Green (R-WS); Rep. Phil English (R-PA); Grant D. Aldonas, undersecretary, Department of Commerce; Franklin J. Vargo, NAM; and Morris Goldstein, IIE	King (R-NY), Biggert (R-IL), Paul (R-TX), Manzullo (R-IL), Ose (R-CA), Kennedy (R-MN), Murphy (R-PA), Barrett (R-SC), Maloney (D-NY), Sanders (D-VT), Hooley (D-OR), and Emanuel (D-IL)	▪ Jobs, interest rates, consumer prices ▪ Foreign Treasury security holdings ▪ HR 3058 (China Act): tariffs equal to percent of manipulation ▪ Change in renminbi value and US exports ▪ Timetable for floating ▪ China's capital flows
14	October 30–31, 2003	US-China Economic Relations and China's Role in the Global Economy (Panels 1 and 2)	House Ways and Means Committee, 108th Congress, 1st Session	John B. Taylor, undersecretary	Gregory N. Mankiw, CEA; Josette S. Shiner, Office of USTR; Douglas Holtz-Eakin, CBO; Loren Yager, GAO; and Robert A. Rogowski, US International Trade Commission	Thomas (R-CA), Crane (R-IL), Rangel (D-NY), Levin (D-MI), Shaw (R-FL), Houghton (R-NY), Dunn (D-AL), Tubbs-Jones (D-OH), English (R-PA), Foley (R-FL), Becerra (D-CA), Pomeroy (D-ND), and Tanner (D-TN)	▪ Why no reference to Japan in report? ▪ Trade deficit ▪ Timetable for floating ▪ Foreign Treasury security holdings ▪ Efficacy of tariff legislation? ▪ Impact of manipulation on manufacturing jobs ▪ Relationship between nominal and real rates
15	October 30, 2003	Treasury Department's Report to Congress on International Economic and Exchange Rate Policies	Senate Banking, 108th Congress, 1st Session	John W. Snow, secretary	None	Shelby (R-AL), Allard (R-CO), Bunning (R-KY), Crapo (R-ID), Dole (R-NC), Sarbanes (D-MD), Dodd (D-CT), Reed (D-RI), Schumer (D-NY), Bayh (D-IN), Carper (D-DE), Stabenow (D-MI), and Corzine (D-NJ)	▪ China: interim one-off revaluation vs. flexibility? ▪ Impose 27.5 percent tariff on China imports ▪ China: internal reforms ▪ Reports more prescriptive? ▪ Super 301, multilateral response (IMF, WTO)?

Table 2 *(continued)*

No.	Date	Title	House/Senate	Testimony from Treasury	Outside testimony	Members attending	Subjects of questions
16	May 26, 2005	Report to the Congress on International Economic and Exchange Rate Policies	Senate Banking, 109th Congress, 1st Session	John W. Snow, secretary	None	Shelby (R-AL), Bennett (R-UT), Allard (R-CO), Bunning (R-KY), Crapo (R-ID), Dole (R-NC), Hagel (R-NE), Sarbanes (D-MD), Schumer (D-NY), Bayh (D-IN), Carper (D-DE), and Stabenow (D-MI)	▪ Trade deficit and jobs ▪ State Department Authorization Bill amendments (China) ▪ Renminbi linchpin for the region? ▪ HR 782 and S 796 (to amend Tariff Act of 1930 and clarify currency manipulation in Omnibus Act of 1988)
17	May 18, 2006	International Economic and Exchange Rate Policies	Senate Banking, 109th Congress, 2nd Session	John W. Snow, secretary	None	Shelby (R-AL), Bennett (R-UT), Allard (R-CO), Bunning (R-KY), Crapo (R-ID), Dole (R-NC), Schumer (D-NY), Bayh (D-IN), Carper (D-DE), and Johnson (D-SD)	▪ Trade deficit and jobs ▪ Manipulation definitional issues ▪ Fuel exporters and current account deficit; ▪ Budget deficit ▪ China's internal reforms to boost domestic demand?
18	May 9, 2007	Currency Manipulation and Its Effects on US Business and Workers (afternoon session)	House Ways and Means Committee, Trade Subcommittee; House Energy and Commerce Committee, Trade Subcommittee; House Financial Services Committee, Technology Subcommittee, 110th Congress, 1st Session	Mark Sobel, deputy assistant secretary, international monetary and financial policy	Stephen Claeys, Department of Commerce; Daniel Brinza, assistant USTR; and Donald L. Evans, former secretary, Department of Commerce	Levin (D-MI), Rush (D-IL), Gutierrez (D-IL), Ryan (R-OH), Herger (R-CA), Stearns (R-FL), Sherman (D-CA), and Brady (R-TX),	▪ IMF to improve exchange rate surveillance ▪ Use annual review process in WTO to address manipulation ▪ Is manipulation a subsidy? ▪ China's domestic effects from undervalued renminbi ▪ Manipulation definitional issues ▪ China's broader financial reforms ▪ Jurisdiction within administration

a. Only a small portion of the hearing devoted to the report; mostly on the EBRD subject.
b. Senator D'Amato not present; submitted a prepared statement.

Table 3 Exchange rate bills introduced in the 110th Congress, January–June 2007

No.	Sponsors	Bill no.	Date introduced	Committee of jurisdiction	Substantive measures
1	English (R-PA), Hayes (R-NC), and Reynolds (R-NY)	H.R. 321	January 9, 2007	House Ways and Means	**Title:** Currency Harmonization Initiative Through Neutralizing Action Act of 2005 **Synopsis:** To require the secretary of the Treasury to analyze and report on the exchange rate policies of the People's Republic of China (PRC) and to require that additional tariffs be imposed on PRC's products on the basis of the rate of manipulation of the rate of exchange between the renminbi and the US dollar **Reporting requirements:** Annual report by the Treasury to House Ways and Means and Senate Finance Committees about the exchange rate policies of the PRC **Manipulation:** Within the meaning of Article XV of the GATT 1994; to be computed as a percentage rate against the dollar **Sanctions:** Imposes an additional tariff on all products from the PRC, equal to the rate of manipulation
2	Ryan (D-OH), Hunter (R-CA), and 31 other cosponsors	H.R. 782	January 31, 2007	House Ways and Means	**Title:** Fair Currency Act of 2007 **Synopsis:** To amend title VII of the Tariff Act of 1930 to provide that exchange-rate misalignment by any foreign nation is a countervailable export subsidy, to amend the Exchange Rates and International Economic Policy Coordination Act of 1988 to clarify the definition of manipulation with respect to currency, and for other purposes **Reporting requirements:** Modest change, inclusion of "fundamental misalignment" definition **Manipulation:** Section 3006 of the Exchange Rates and International Economic Policy Coordination Act of 1988 is amended to include the definition of "fundamental misalignment" as a "material sustained disparity between the observed levels of an effective exchange rate for a currency and the corresponding levels of an effective exchange rate for that currency that would be consistent with fundamental macroeconomic conditions based on a generally accepted economic rationale." Section 3004 on Bilateral Negotiations is amended accordingly **Sanctions:** Clarification to include exchange rate misalignment as a countervailable subsidy under Title VII of the Tariff Act of 1930; clarification to include exchange rate misalignment as a condition to be considered with respect to market disruption under Chapter 2 of Title IV of the Trade Act of 1974; oppose any IFI governance changes that benefit a country whose currency is designated as manipulated
3	Bunning (R-KY), Evan (D-IN), Casey (D-PA), Levin (D-MI), Snowe (R-ME), and Stabenow (D-MI)	S. 796	March 7, 2007	Senate Finance	**Comment:** Same as HR 782

Table 3 *(continued)*

No.	Sponsors	Bill no.	Date introduced	Committee of jurisdiction	Substantive measures
4	Spratt (D-SC) and Myrick (R-NC)	H.R.1002	February 12, 2007	House Ways and Means	**Synopsis:** To authorize appropriate action if the negotiations with the PRC regarding its undervalued currency and currency manipulation are not successful **Reporting requirements:** No change **Manipulation:** No change **Sanctions:** Imposes an additional duty rate of 27.5 percent ad valorem on any article imported into the United States that is the growth, product, or manufacture of the PRC unless the president certifies to Congress that: (1) the PRC is no longer manipulating the exchange rate between its currency and the US dollar in order to prevent an effective balance of payments and gain an unfair international trade advantage; and (2) the PRC's currency is valued in accordance with accepted market-based trading policies **Comment:** Directs the secretary of the Treasury to begin negotiations with the PRC for adoption of a market-based currency valuation system
5	Tancredo (R-CO)	H.R. 571	January 18, 2007	House Ways and Means	**Synopsis:** To require additional tariffs be imposed on products of any nonmarket economy country until the president certifies to Congress that the country is a market economy country, and to direct the secretary of the Treasury to deposit the amounts generated from those tariffs into the Social Security trust funds **Reporting requirements:** No change **Manipulation:** No change **Sanctions:** Imposes additional tariffs on any article that is the growth, product, or manufacture of a nonmarket economy country and is imported directly or indirectly into the United States: (1) a rate of duty of 5 percent ad valorem during the first year, and (2) additional duty of 1 percent ad valorem in each succeeding year **Comment**: "Nonmarket country" applies to: Albania, Armenia, Azerbaijan, Belarus, Cambodia, Georgia, Kyrgyzstan, Laos, Moldova, the PRC, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Vietnam, Cuba, and North Korea; and any other country the president determines is a nonmarket country as defined in section 771 of the Tariff Act of 1930; the PRC shall not be construed to include Taiwan
6	Dorgan (D-ND), Brown (D-OH), and Graham (R-SC)	S. 571	February 13, 2007	Senate Finance	**Synopsis:** To withdraw normal trade relations treatment from, and apply certain provisions of title IV of the Trade Act of 1974 to, the products of the PRC **Reporting requirements:** No change **Manipulation:** No change **Sanctions:** Proposes a withdrawal of normal trade relations treatment from the PRC **Comment:** Normal trade relations treatment may be extended to products of the PRC only in accordance with the provisions of sections 401 to 409 of the Trade Act of 1974
7	Kaptur (D-OH)	H.R. 1958	April 19, 2007	House Ways and Means	**Comment:** Same as S 571

Table 3 *(continued)*

No.	Sponsors	Bill no.	Date introduced	Committee of jurisdiction	Substantive measures
8	Dodd (D-CT), Shelby (R-AL), Bayh (D-IN), Bunning (R-KY), Carper (D-DE), Brown (D-OH), Casey (D-PA), and Stabenow (D-MI)	S.1677	June 12, 2007	Senate Banking	**Title:** Currency Reform and Financial Markets Access Act of 2007 **Synopsis:** To recognize and remedy currency manipulation by China and other countries, promotes Treasury's role in enhancing the competitiveness of US financial services firms **Reporting requirements:** Requires the Treasury to submit a detailed plan of action to the Congress within 30 days of a finding of manipulation; requires the Treasury to annually monitor and report to Senate Banking and the House Financial Services Committees on market access barriers for US financial services firms, to identify challenges, and to develop plans to address those barriers; requires the Treasury's initial report to include the status of the US-China Strategic Economic Dialogue (SED) as it relates to financial services firms. This would become the only congressionally required report on the progress of the SED **Manipulation:** Strengthens the definition to identify countries that have both a material global current account surplus and a significant bilateral trade surplus with the United States as currency manipulators, without regard to "intent" **Sanctions:** Provides Treasury the authority to file a World Trade Organization (WTO) Article XV case to remedy currency manipulation if the goals and benchmarks are not met within 9 months; the Treasury must immediately seek International Monetary Fund (IMF) consultations when manipulation is found and requires Treasury to use its voice and vote at the IMF to that end **Comment:** Creates a process by which Congress, led by either the Senate Banking or House Financial Services Committee, can originate a joint resolution of disapproval when Treasury fails to cite manipulation. Provides for an expedited process for such a motion through the floors of both chambers
9	Baucus (D-MT), Grassley (R-IA), Schumer (D-NY), and Graham (R-SC)	S.1607	June 13, 2007	Senate Finance	**Title:** Currency Exchange Rate Oversight Reform Act of 2007 **Synopsis:** To provide for identification of misaligned currency, require action to correct the misalignment, and for other purposes **Reporting requirements:** Creates a new body with which Treasury must consult during the development of its report **Manipulation:** Two categories of currencies: (1) a general category of "fundamentally misaligned currencies" based on observed objective criteria and (2) a select category of "fundamentally misaligned currency for priority action" that reflects misaligned currencies caused by clear policy actions by a government **Sanctions:** (1) Immediately upon designation: (a) oppose IMF governance changes that benefit a country whose currency is designated for priority action and (b) consider whether to grant a country "market economy" status for purpose of US antidumping law; (2) after 180 days of failure to adopt appropriate policies: (a) reflect currency undervaluation in dumping calculations for products of the designated country, (b) forbid federal procurement of its goods and services (unless the member of WTO Agreement on Government Procurement), (c) request the IMF to engage the country in special consultations, (d) forbid Overseas Private Investment Corporation financing or insurance projects for the country, and (e) oppose new multilateral bank financing for projects; (3) after 360 days: (a) US Trade Representative (USTR) to require WTO dispute settlement and (b) the Treasury to consult with the Federal Reserve and other central banks for remedies **Comment:** The president could initially waive the consequences after the first 180 days if such action would harm US national security or the vital economic interest; however, the president must justify the decision; any subsequent economic waiver would also require the President to justify the decision; any member of Congress may thereafter introduce a disapproval resolution concerning the president's waiver

Table 3 *(continued)*

No.	Sponsors	Bill no.	Date introduced	Committee of jurisdiction	Substantive measures
10	Stabenow (D-MI), Graham (R-SC), and Levin (D-MI)	S.445	January 31, 2007	Senate Finance	**Title:** Trade Prosecutor Act **Synopsis:** To establish the position of trade enforcement officer (TEO) and a Trade Enforcement Division in the Office of the USTR, to require identification of trade enforcement priorities and for other purposes **Reporting requirements:** No change **Manipulation:** Citing the country as a manipulator under section 3005 of the Omnibus Trade and Competitiveness Act of 1988 qualifies as priority foreign country trade practice to be addressed by the TEO **Sanctions**: TEO to seek satisfactory resolution with the country or countries engaging in such practice under the auspices of the WTO, pursuant a bilateral or regional trade agreement to which the United States is a party
11	Camp (R-MI) and Jones (D-OH)	H.R.1278	January 3, 2007	House Ways and Means	**Comment:** The same as S 445
12	Rockefeller (D-WV)	S.364	January 23, 2007	Senate Finance	**Title:** Strengthening America's Trade Laws Act **Synopsis:** A bill to strengthen United States trade laws and for other purposes **Reporting requirements:** No change **Manipulation:** Title III, section 302: treatment of exchange rate manipulation as countervailable subsidy under title VII of the Tariff Act of 1930 **Sanctions:** Exchange rate manipulation (as defined by section 771 of the Tariff Act of 1930) therefore pursuant to dispute settlement in WTO, amendments to which are proposed in Title I of the law, inter alia containing a setting up of a congressional advisory commission on WTO dispute settlement **Comment:** Title II determines the conditions for designating and revoking the nonmarket economy country status. A country found to be engaged in exchange rate manipulation may have status of a market economy, a nonmarket economy; or a combination thereof

Figure 1a Exchange rate of dollar against deutsche mark/euro, January 1988–May 2007

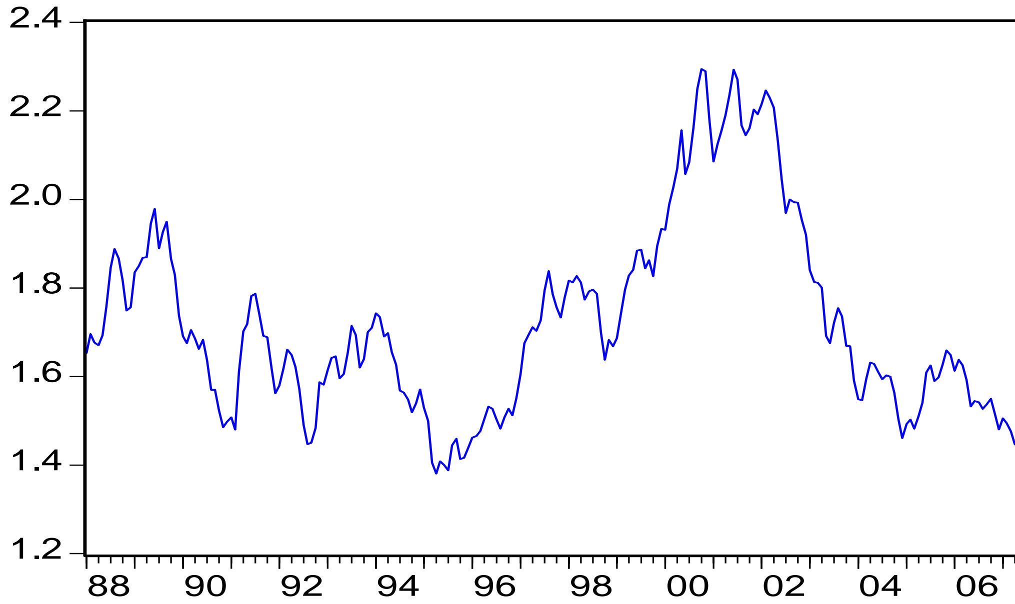
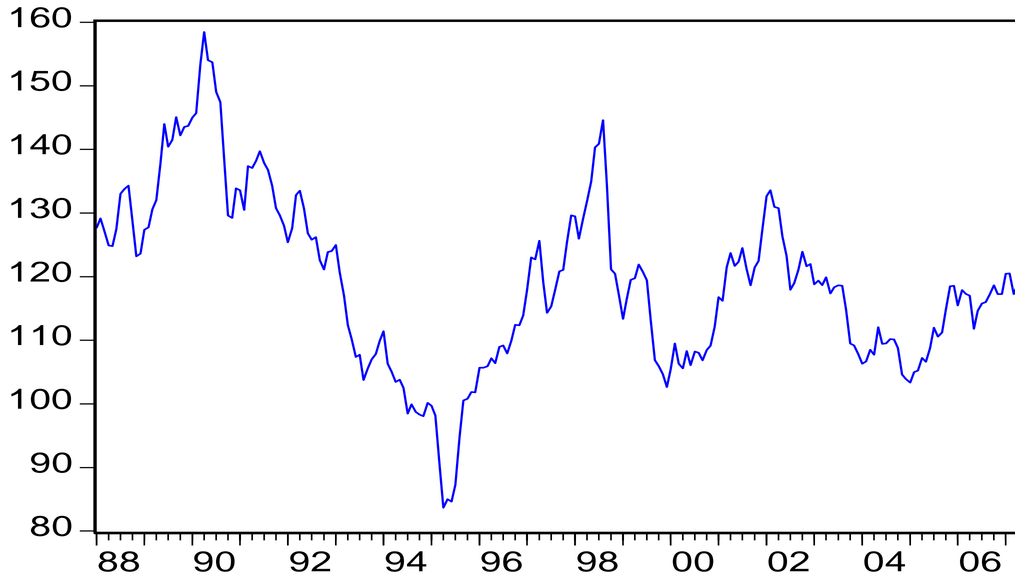
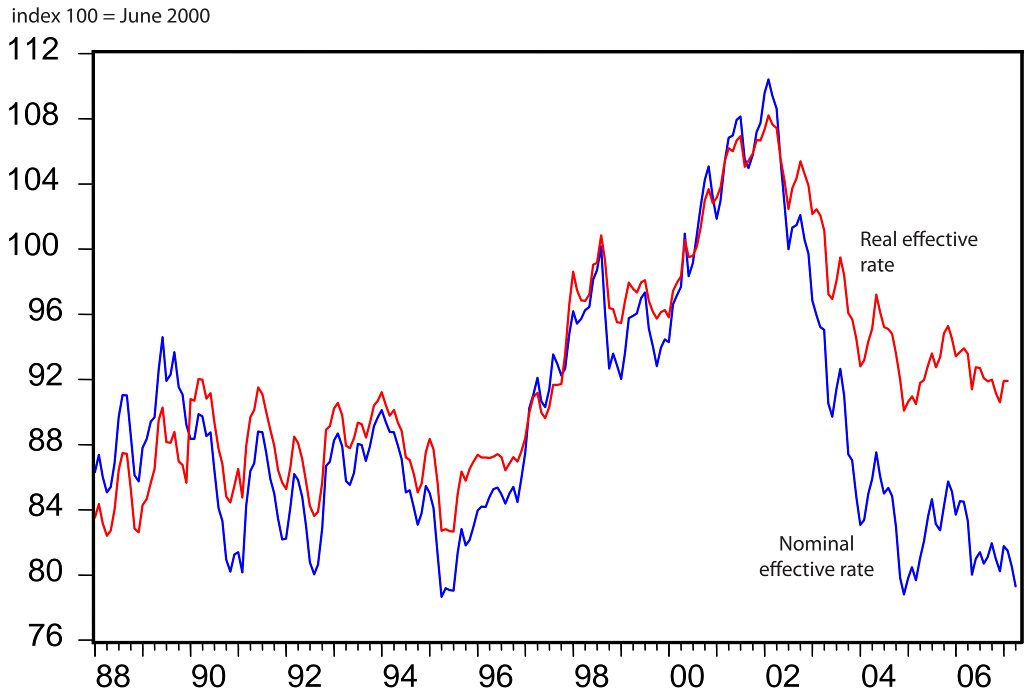


Figure 1b Exchange rate of dollar against yen, January 1988–May 2007



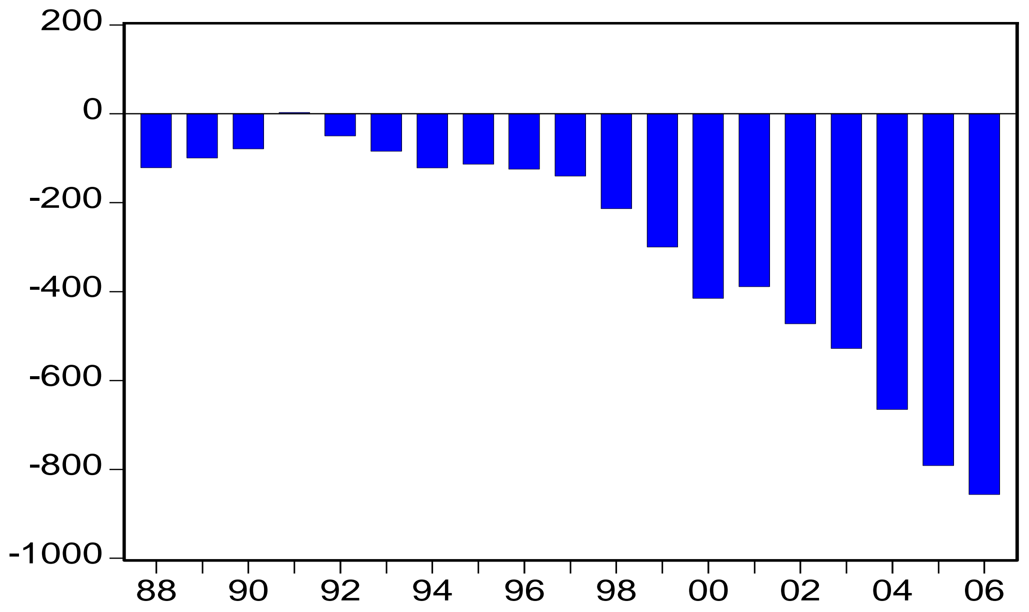
Source: Pacific Exchange Rate Service, available at http://fx.sauder.ubc.ca.

Figure 2 Nominal and real effective rate of US dollar, January 1988–May 2007



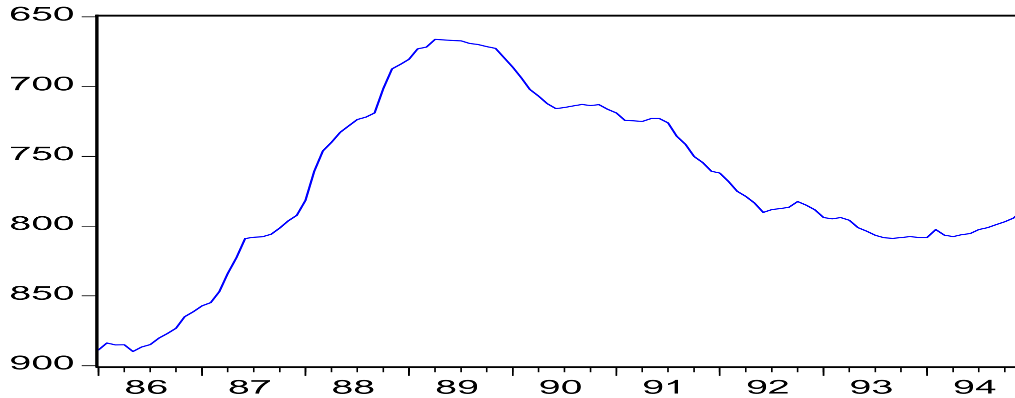
Source: International Monetary Fund, *International Financial Statistics.*

Figure 3 US current account balance, 1988–2006 (billions of dollars)



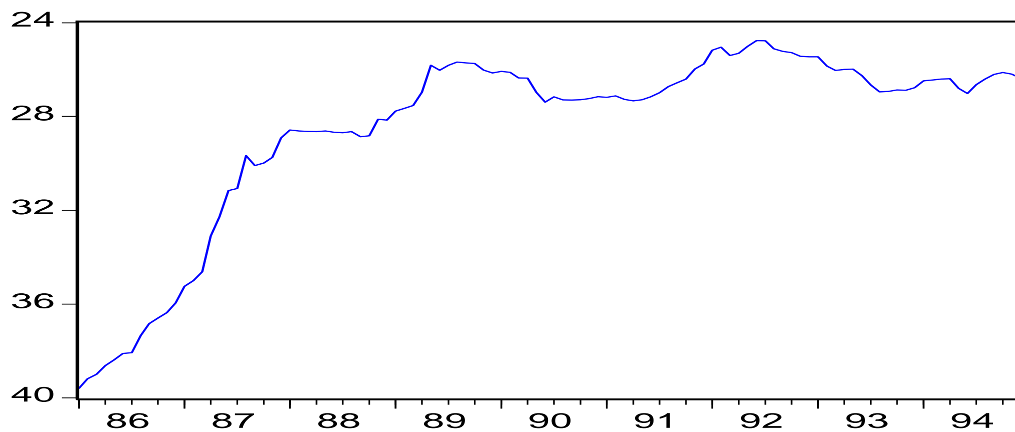
Source: International Monetary Fund, *International Financial Statistics.*

Figure 4a Korean won market rate per dollar, end of period, January 1986–December 1994



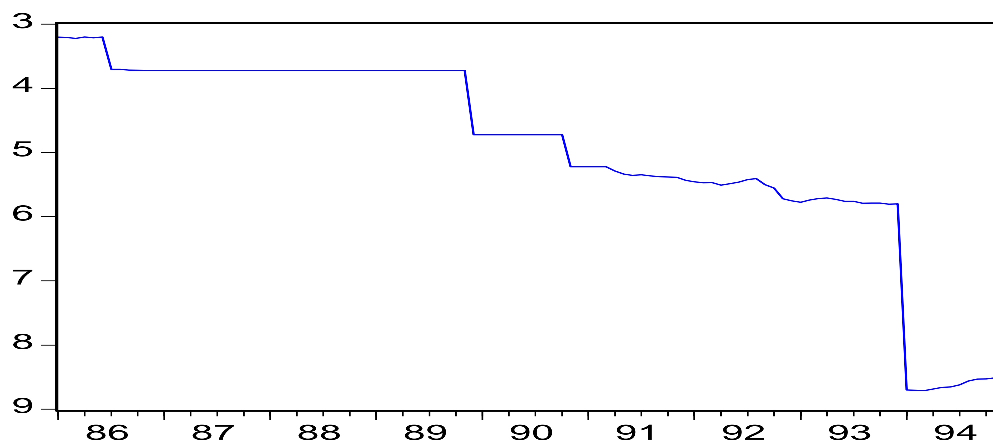
Note: Inverted scale applies. *Source:* International Monetary Fund, *International Financial Statistics*.

Figure 4b New Taiwan dollar market rate per dollar, end of period, January 1986–December 1994



Note: Inverted scale applies. *Source:* Central Bank of Republic of China (Taiwan).

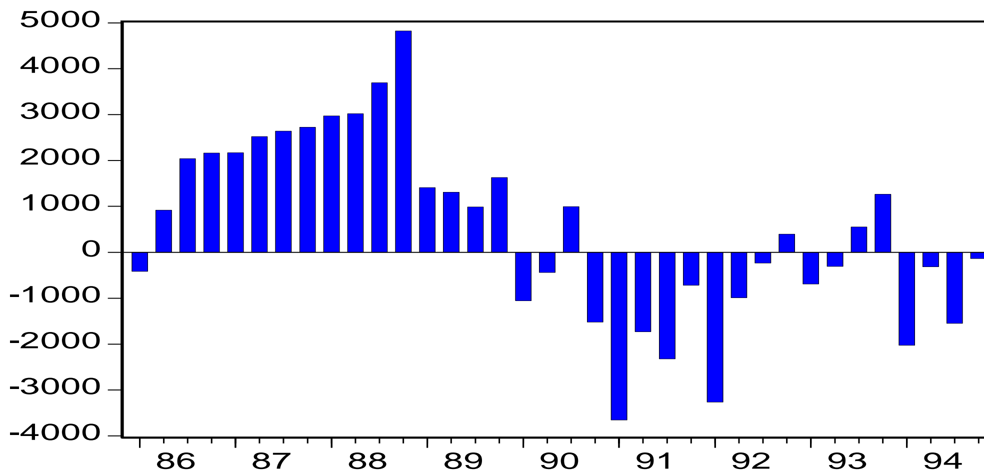
Figure 4c Renminbi principal exchange rate per dollar, end of period, January 1986–December 1994



Notes: Inverted scale applies. Prior to January 1994 and dismantling of the dual exchange rate system, the preponderance of China's international trade was not conducted by the official rate shown in this figure, rendering the apparent devaluation at that time somewhat misleading.

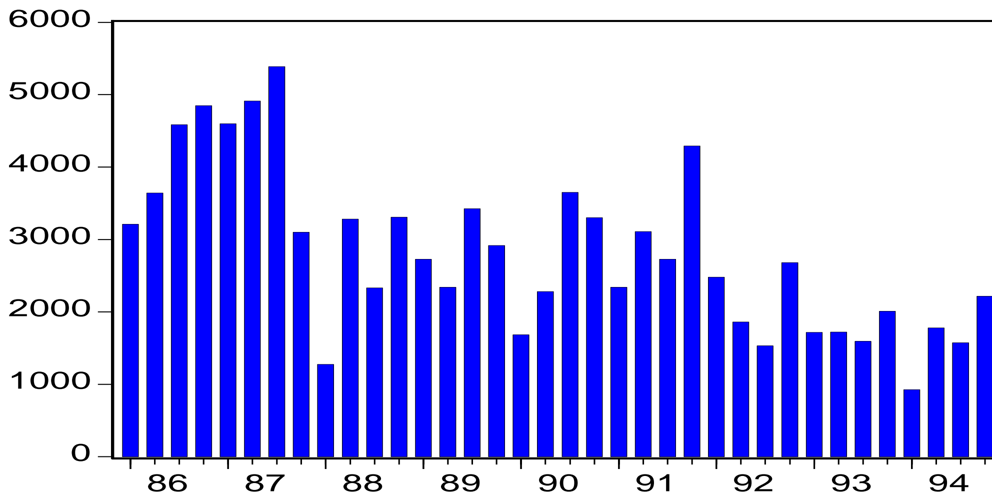
Source: International Monetary Fund, *International Financial Statistics.*

Figure 5a Current account balance for Korea, 1986Q1–94Q4
(millions of US dollars)



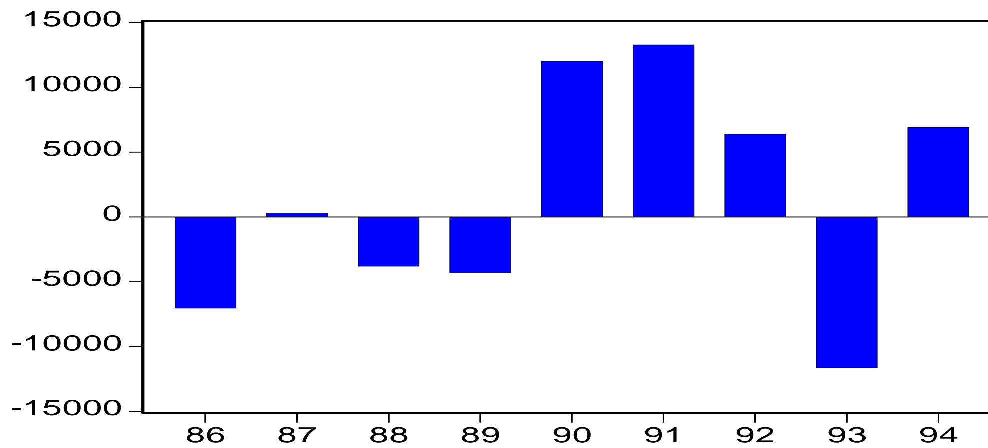
Source: International Monetary Fund, *International Financial Statistics*.

Figure 5b Current account balance for Taiwan, 1986Q1–94Q4
(millions of US dollars)



Source: Central Bank of Republic of China (Taiwan).

Figure 5c Current account balance for China, 1986–94 (millions of US dollars)



Source: International Monetary Fund, *International Financial Statistics*.

Figure 6a US-Korea trade balance, 1986Q1–94Q4 (millions of US dollars)

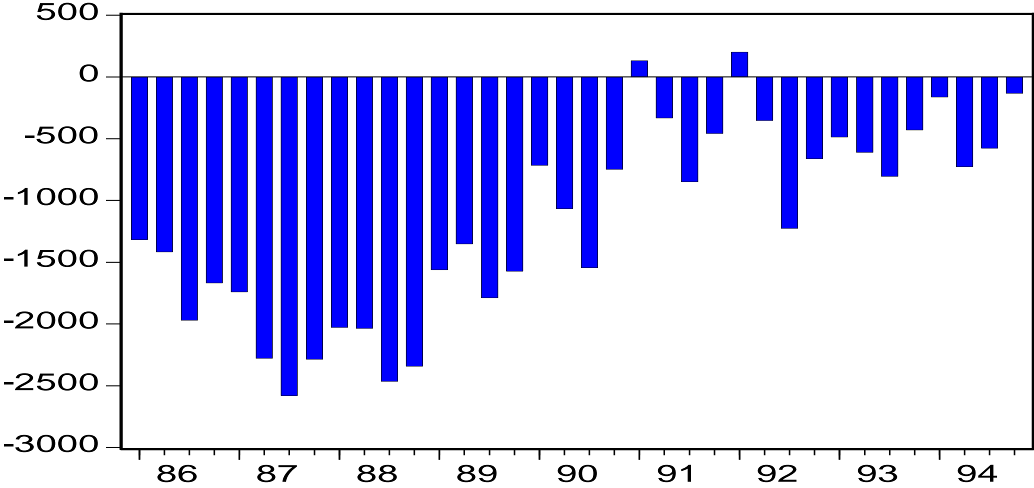


Figure 6b US-Taiwan trade balance, 1986Q1–94Q4 (millions of US dollars)

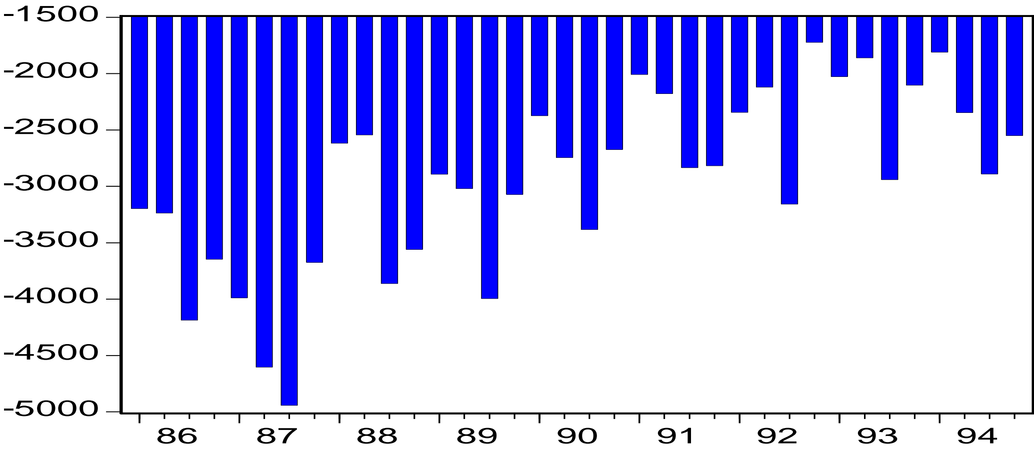
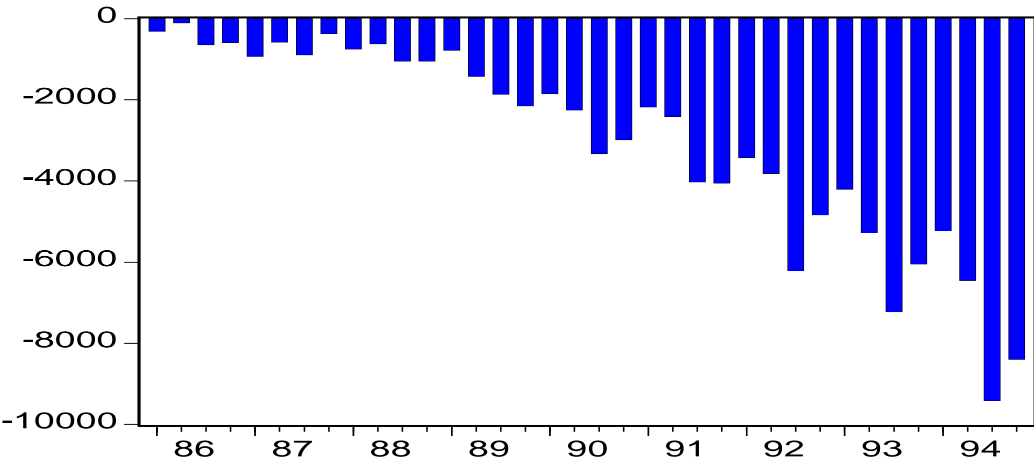


Figure 6c US-China trade balance, 1986Q1–94Q4 (millions of US dollars)



Source: US Census Bureau, Foreign Trade Division, Data Dissemination Branch, available at www.census.gov/foreign-trade/balance.