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Currency and the Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP) should include language that addresses and strongly discourages deliberate currency manipulation – meaning intervention directly in the currency markets to greatly weaken the value of one's currency for the purpose of boosting exports far above the level of imports.

Currency manipulation has cost the United States millions of jobs over the past decade and a half. China manipulated its currency most dramatically during the early 2000s – accumulating the largest stock of foreign exchange reserves the world has ever known. Japan and others, including South Korea, manipulated their currencies in earlier episodes.

Japan's currency manipulation and other trade-distorting practices kept Japan's auto and other markets closed, while Japan enjoyed access to a very open U.S. market. Such behavior should not be consistent with continuing to benefit from the advantages of a free trade agreement with the United States.

Since it was created, the International Monetary Fund (IMF) has been charged with preventing this kind of currency manipulation – and has up-to-date guidelines defining exactly what constitutes currency manipulation. Unfortunately, the IMF has proved unable to enforce those guidelines; given how IMF governance really operates, currency manipulators are able to essentially stall any action. Left to its own devices, there is no chance that the IMF will become more effective in the foreseeable future.

A well-designed currency chapter in TPP – such as one based on existing IMF guidelines – would not impede the workings or effectiveness of US monetary policy. TPP should specifically disallow situations when countries buy large amounts of foreign exchange over long periods of time, to prevent an appreciation of their exchange rate despite running a large current account surplus.

The Federal Reserve does not engage in such practices. It is unimaginable that the Fed would seek to use these policy tools in the future and that is the reason that the US already agreed to and even insisted upon what is in the current IMF guidelines. All forms of modern "quantitative easing" have also been found completely consistent with IMF guidelines.

Simon Johnson is a professor of global economics and entrepreneurship at MIT Sloan; he was previously chief economist at the International Monetary Fund.