

Memorandum on U.S. trade and manufacturing policy

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To: Biden–Harris Transition Team

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For the U.S. economy to “Build Back Better” after the COVID-19 pandemic, the Biden-Harris administration must emphasize job creation in America’s manufacturing and construction sectors. Rebuilding U.S. manufacturing industries, and upgrading domestic infrastructure, can generate millions of **high-wage jobs** and reduce income inequality while also addressing racial injustice.

There are three key efforts needed to rebuild manufacturing and the U.S. economy:

1. Realign the U.S. dollar and address overseas currency manipulation.
2. Invest in infrastructure and renewable energy.
3. Rebalance U.S. trade.

PRIORITY ONE: Realign the dollar through a competitive currency policy

The single most effective tool for rebalancing trade is the adoption of a competitive dollar policy. The real value of the U.S. dollar—which has gained nearly 21% since mid-2014 alone—needs to fall by 25% to 30% in order to rebalance trade, according recent research.¹ Dollar realignment would stimulate rapid export growth, resulting in surging domestic investment and job creation even as it also reduced import growth.

However, there are two reasons the dollar is currently overvalued.

The first is currency *manipulation*, which is the result of years of foreign central bank purchases of U.S. dollar assets. This has driven up demand for the dollar and helped to keep it overvalued. This currency manipulation can be addressed through government sanctions and intervention.

More recently, however, the extent of currency manipulation has decreased. Instead, during the last five years, excess private demand for U.S. assets from overseas investors has caused the dollar’s value to soar. This second reason, currency *misalignment*, can be addressed through market interventions.

Implementing a competitive dollar policy will stimulate rapid export growth, resulting in surging domestic investment and job creation, while limiting import growth. Eliminating America’s \$864 billion annual goods trade deficit could create between **3.5 million and 6.6 million jobs** over the next four years, including at least 1.4 million good manufacturing jobs.

Immediate steps for the new administration

- The next [Treasury report on Foreign Exchange Policies](#) of major trading partners (due April 2021) should label all countries meeting the criteria identified by Christopher [Collins and Joseph Gagnon](#) of the Peterson Institute for International Economics (PIIE) as **currency manipulators**. In addition, countries maintaining very large stocks of foreign exchange reserves—which also have a depressive effect on the values of their respective currencies—should also be labeled as currency manipulators (as [explained by Dean Baker](#), senior economist with the Center for Economic and Policy Research). This includes China and Japan.
- In January, the president should immediately announce the suspension of tax waivers on foreign government holdings of U.S. financial assets in the United States, as proposed regarding China by PIIE’s Joseph [Gagnon and Gary Hufbauer](#) in 2011. This will also discourage foreign government holdings of U.S. assets and put downward pressure on the dollar. The U.S. should also deliver notice of canceling tax treaties with selected foreign governments. Taxes should then be withheld on income earned on Treasuries and other government assets, at an initial tax rate of roughly 30%. Significantly, other countries that should be subject to this taxation continue to hold huge foreign exchange reserves, most in dollar assets. These countries include [China](#) (\$3.1 trillion), [Japan](#) (\$1.4 trillion), [Singapore](#) (\$500 billion), and [South Korea](#), (\$400 billion).
- The president should use his executive authority under the [International Emergency Economic Powers Act](#) (IEEPA) to impose a tax on foreign government owned or controlled holdings of U.S. financial assets as soon as possible. Announcing his intent to do so when canceling tax treaties would put currency manipulators on notice that the United States is serious about stopping such practices. The net of these taxes could be widened as needed, since many currency manipulators have stashed large amounts of their reserves in additional [Sovereign Wealth Funds](#), including China (\$1.4 trillion), and Singapore (\$900 billion).²
- Taxation of foreign government holdings of U.S. assets would discourage currency manipulation. However, government demand for these assets may not be influenced by taxes on the income the assets earned. Therefore, the Commerce Department and the U.S. trade representative should continue to pursue currency countervailing duty (CVD) cases against individual products and countries. Such cases send a “shot across the bow” to currency manipulators in the absence of more comprehensive measures.
- The Biden administration should initiate offsetting purchases of the foreign assets of those countries found to be engaging in currency manipulation, purchases known as countervailing currency intervention (CCI). Overall, such purchases are the most effective tool available to remedy currency manipulation. The use of Exchange Stabilization Fund (ESF) assets by the Treasury and the Federal Reserve to engage in CCI was proposed by [Bergsten and Gagnon in 2017](#). Substantial increases in ESF assets are required to engage in significant CCI intervention, and will require congressional authorization.

- The Biden administration must also address market-driven **currency misalignment**. It should do so by empowering the Federal Reserve to establish an exchange rate management policy designed to achieve and maintain balanced trade. This can be done by working with Congress to implement the bipartisan **legislation** proposed by Senators Tammy Baldwin and Josh Hawley in their “**Competitive Dollar for Jobs and Prosperity Act**” (S. 2357). The measure would impose a “**Market Access Charge**” on new foreign investor purchases of U.S. assets. It would also authorize a substantial increase in resources for the Treasury Exchange Stabilization Fund, needed to fight government-backed currency manipulation.
- Along these lines, the administration should also impose an initial emergency access charge, exactly as defined in S. 2357, under the IEEPA.

PRIORITY TWO: Rebuild U.S. infrastructure and begin the clean energy transition

The Biden-Harris plan for investments in infrastructure and climate programs, with a full “Buy America” commitment, can supercharge recovery for the U.S. economy. A \$2 trillion, four-year plan of investments in these sectors, along the lines of that **announced by President-elect Biden** in July, would support **between 3.4 million and 6.3 million total jobs**. Nearly half (45.7%) of the 3.4 million direct and indirect jobs supported would be in good-paying manufacturing and construction sectors.

Immediate steps for the new administration and Congress

- Immediately revive and expand plans for the **Moving Forward Act** (MFA), an infrastructure bill that was developed by the House Transportation and Infrastructure Committee, and passed by the House on July 1, 2020.
- Develop an expanded plan for renewal of transportation infrastructure legislation, which can attract bipartisan support. To the extent possible, extensions to the MFA should incorporate Biden-plan goals for expanded U.S. auto production, investments in zero-emission public transit, building and housing investments, and research and development.
- Maximize employment and economic impacts as part of the recovery plan by ensuring that the MFA is entirely **debt-financed** until the economy has fully recovered (with the exception of current revenues in the transportation trust fund).
- **Do not raise additional revenues** to fund infrastructure investments until and unless we meet two criteria: **estimates** of total nonfarm employment exceed 152.5 million (the level reached in February 2020) and interest rates on short-term treasury securities exceed 3.5% on a sustained basis. Where possible, user fees should be relied on to fund public investments in infrastructure, as growing reliance on efficient and clean transportation sources will erode transport fuel tax receipts over time.
- To the extent possible, use the infrastructure bill to fund climate-friendly public investment (e.g., electrical grid upgrades, battery development/capacity, R&D for

smart grids, etc.).

- Develop separate legislation to support popular incentives; such as incentives for hybrid cars, e-cars, wind turbines, and solar power to help utilities meet state renewable guidelines; residential and commercial incentives for weatherization; incentives for appliance efficiency upgrades; consumer solar; renewable conversions for schools and public buildings; and, investments in innovation, agriculture, and conservation.

PRIORITY 3: Pursue trade and industrial policies that will rebalance U.S. trade

More than three decades of globalization have devastated U.S. manufacturing and the American working class. Trade-related job losses are just the tip of the iceberg. Globalization has also reduced median wages by **roughly \$2,000 per year** for roughly 100 million working-class Americans. Joe Biden recognized these problems when he **promised** the United Steelworkers in May that he would not consider any new trade agreements “until we’ve made major investments here at home, in our workers and our communities.”

Immediate steps for the next administration and Congress

- Establish a **freeze on negotiating new trade agreements** until the dollar is realigned and the U.S. goods trade deficit has been erased.
- Ensure that trade policy does not privilege corporate interests over workers. The proliferation of Investor State Dispute Settlement (ISDS) clauses inserted into international trade and investment agreements has created a global system of special courts exempt from any judicial appeal or review. These courts allow multinational companies to sue governments for any potential infringement on future profits, as documented by **Todd Tucker in his book *Judge Knot***. These agreements have cast a pall over the ability of governments to regulate in their own legal and national interest. The U.S. must negotiate the elimination of ISDS clauses from most or all trade deals.
- Promote welfare-enhancing multilateral agreements negotiated by the USTR in areas such as labor rights and environmental standards while also rejoining the Paris Climate Accord.
- Pursue multilateral rules to address major international challenges, such as greenhouse gas (GHG) emissions. The U.S. should pursue binding agreements to reduce GHG emissions, especially with China—the world’s largest and most rapidly growing GHG emitter—earlier than called for in the current Paris Climate Accord.
- Ensure that the USTR works with the Commerce Department to aggressively combat **overcapacity** in **steel, glass, paper**, solar panels, and a host of **other industries** distorted by massive state subsidies and other illegal trade and industrial policies.
- Maintain Section 232 steel and aluminum tariffs until tariffs can be replaced by more comprehensive, global limits on unfair trade in these products. One model is to negotiate global tariff agreements to “**wall off**” products from countries with **excess**

capacity. At present, overcapacity is widespread in many exporting countries, including Japan, Korea, Brazil, Turkey, and China.

- Eliminate tax evasion, corporate inversions, and tax havens that allow multinational enterprises to avoid corporate taxation. The **Tax Cuts and Jobs Act of 2017 (TCJA)** established **new, lower tax rates for foreign investment** by multinational corporations; this encouraged further offshoring. Consider adopting **sales factor apportionment (SFA)** to fully tax profits on all corporate sales in the United States, regardless of where production takes place or where corporations are domiciled. SFA techniques have been used for many years by states to fairly allocate taxation of corporate profits.
- Don't tax U.S. consumers to protect the intellectual property rights of U.S. multinationals in China. This simply encourages more offshoring of U.S. jobs and factories. As **Dean Baker has explained**, stronger patent and copyright protections have transferred roughly \$1 trillion annually from workers and consumers to corporations and the richest 10 percent.
- Strengthen "Buy America" requirements for all federal, state, and local purchases, as supported by the Alliance for American Manufacturing's **industrial policy proposals**. Buy America requirements can greatly enhance the job creation and domestic output of public investments. Historically, Buy America preferences have been **loosely enforced**.
- Develop new standards and methods to maximize domestic job creation associated with any recovery act, clean energy, or infrastructure expenditures. One simple step would be to require bidders for large government contracts to submit **job impact assessments**, and to document these outcomes in post-project assessments.
- Establish a strong, **whole-of-government program** to reshore critical materials production. This includes bringing back to the United States the production of everything from pharmaceuticals to medical equipment to **rare earth metals**.
- Expand job training and workforce development programs, and consider adopting "flexicurity"-style programs—modeled after those **developed in Denmark** and other European countries—to support growth and renewal of America's aging industrial workforce.
- Revamp America's unemployment insurance (UI) system. Effective UI systems are industrial policies. Jobs not destroyed are much cheaper to restart than those that have been entirely eliminated through short-sighted labor policies. The COVID-19 crisis has demonstrated that America's UI system is broken and in **desperate need of repair**. In contrast, many European governments have paid firms to keep workers on the payroll, so that when employers emerge from a downturn, they would be intact.
- Greatly expand R&D and Cooperative Extension Services. Fund the proposal by Simon **Johnson and Jonathan Gruber** in their book ***Jump Starting America*** to identify metropolitan areas that could be hubs of science and technology. Designate them to receive large-scale science and tech spending using the tripartite federal/state and local/private sector investment model to create dozens of national centers of manufacturing research and excellence. In addition, the **Hollings Manufacturing**

Extension Partnerships, which have been targeted for extinction in the Trump administration, should be substantially expanded.

- Substantially increase domestic content requirements and require jobs impact statements by the US Export-Import Bank in its Buy America policies, which have been watered down beyond all recognition. These standards must be **tightened and reformed**.
- Reevaluate the costs and benefits of foreign direct investment in the United States. So-called “insourcing” (foreign investment in the United States) is dominated by foreign acquisition of U.S. companies, such as **Lenovo’s purchase of IBM’s PC division** in 2005. Such purchases have **eliminated millions of U.S. jobs** over the past three decades through layoffs, plant closures, and sell-offs. Furthermore, foreign multinational companies (MNCs) often buy domestic firms simply to distribute their own exported products. As a result, foreign MNCs are responsible for a large and growing share of U.S. trade deficits. Adding insult to injury, state and local governments are often involved in a race to the bottom for such investments, competing to offer tax abatements and infrastructure subsidies to attract foreign investors. The United States should consider banning tax abatements and infrastructure and other subsidies to foreign investors unless entities seeking subsidies can prove that they are effectively creating jobs.

Endnotes

1. Fred Bergsten, “**Time for a Plaza-II?**” in *International Monetary Cooperation: Lessons from the Plaza Accord after Thirty Years*, eds. (Washington, D.C.: Peterson Institute for International Economics, 2016), Table 14-5. Bergsten estimated that in order to rebalance U.S. trade, the real value of the U.S. dollar must fall by 26.5% on a trade-weighted basis against the currencies of major surplus countries, including the Euro Area countries, China, and Japan. In their 2020 working paper for the Coalition for a Prosperous America (“**Modeling the Effect of the Market Access Charge on Exchange Rates, Interest Rates and the U.S. Economy**”), Steven Byers and Jeff Ferry, using a macroeconomic model from the Federal Reserve, estimated that the dollar needs to fall by 27% to rebalance U.S. trade.
2. These funds include China Investment Corporation (\$1.046 trillion) and the National Council Social Security Fund (\$324 billion), and from Singapore, GIC Private Limited (\$453 billion) and Temasek Holdings (\$417 billion) according to the **Sovereign Wealth Fund Institute** (data downloaded from SWFI November 22, 2020).