REMARKS OF THE HONORABLE DONALD A. MANZULLO
BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES

"THE STATE OF THE INTERNATIONAL FINANCIAL SYSTEM"

Wednesday, June 20, 2007 10:00AM in Room 2128

Mr. Chairman, thank you for holding this hearing today on the subject of the international financial system. I look forward to the comments by the Secretary of the Treasury, Henry Paulson, Jr., regarding the Administration's positions on reforming the International Monetary Fund (IMF), the World Bank, and his perspective on the general state of the international financial system. I appreciate the service of Secretary Paulson who brings a great depth of experience to the international financial portfolio of his responsibilities.

The world financial system has dramatically changed since the Bretton-Woods Agreement was first developed in the aftermath of World War II. The agreement established the IMF and the World Bank with the prime purpose to stabilize exchange rates and promote economic development in order to prevent despotic leaders from taking political advantage of future economic calamities.

To the great credit of the founders of the post-World War II international economic order, the mission of the IMF and the World Bank has been a success. However, times have changed. Initially, exchange rates were stabilized by the gold standard. By the late 1970's, the gold standard and fixed exchange rates were abandoned. Now, exchange rates are governed by market forces with periodic intervention by foreign governments or the IMF to insure that national economies do not collapse and cause political instability because of a weak currency.

However, one of the rules of free trade is that nations should not regularly manipulate their currency for a trade advantage. There are many nations of the world that regularly intervene in exchange markets to undermine the value of their local currency to boost the value of their exports. I was disappointed that the Treasury Department once again did not label the largest of these offenders – China – as a currency manipulator. In previous years, the excuse was that China did not meet the two conditions required by the law – a nation needs to have both a large trade surplus with the United States and the rest of the world in order for it to be considered as a currency manipulator. To respond to that problem, I introduced legislation in 2005 to give Treasury the flexibility to label a country as a currency manipulator even if the nation does not have a global trade surplus. This provision was included in the new version of *Fair Currency Act of 2007* (H.R. 782), authored by Representatives Tim Ryan and Duncan Hunter, which now has 107 bipartisan cosponsors.

However, this issue is now moot for China. In 2004, China had a relatively modest $32 billion global trade surplus when the U.S. experienced a trade deficit with

China totaling $162 billion. In 2006, China's trade surplus with every nation of the world ballooned to $177.5 billion and America's trade deficit with China reached $232.5 billion. It is obvious that China's undervalued currency influences global patterns of trade. Suffice it to say that I believe China meets the criteria of our law that enables the Treasury Department to label China as a currency manipulator. We cannot sustain a manufacturing base in this country when some of our Asian competitors can sell a product in this country less than the cost of the raw materials for our domestic producers.

The Wall Street Journal reported yesterday that under pressure from the United States, the "IMF has promised to identify countries that manipulate their currencies in ways that give them an edge in foreign trade." Obviously, having a multilateral international organization like the IMF take a more pro-active position on this issue is welcome. But any decision by the IMF should not preclude action that the U.S. government can take to offer our manufacturers concrete remedies to address the situation. As every day that passes without any significant appreciation of China's currency – especially after the limited success made at the recent Strategic Economic Dialogue with China – the lack of progress will only increase the chances that legislation such as S. 1607, which was introduced by Senate Finance Committee Chairman Max Baucus and Ranking Minority Member Chuck Grassley to require trade remedies to correct currency misalignments, will become law even over a presidential veto. With all due respect to the esteemed witness before the committee this morning, the Administration had better pay attention. The frustration level is building across the country. Thank you, Mr. Chairman.