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THE PENINSULA

The Dollar's Discontents

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Author: [Barry Eichengreen](#)

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Donald Trump, his vice-presidential running mate J.D. Vance, and his prospective secretary of the Treasury Robert Lighthizer have all pointed to a weaker dollar as a solution to the competitiveness problems of US manufacturing. Their suggestions raise more questions than they answer, however. Is a weaker dollar, in fact, something that can be achieved? Would it actually help to solve the competitiveness problems of US manufacturing? And would it have other costs for the global trading system, for South Korea, and not least for the United States itself?

A number of countries around the world manage their dollar exchange rates closely. Three economists, Ethan Ilzetzi, Carmen Reinhart, and Kenneth Rogoff, estimate that almost half of all countries, which collectively account for 60 percent of global GDP, anchor their currencies to the dollar. If these countries were to raise interest rates and allow their currencies to strengthen, then the dollar, by definition, would weaken.

But these countries are currently following the interest rate and exchange rate policies they view as in their self-interest. They are unlikely to change them in response to Trump's rhetoric. Presumably, tighter monetary policies will have a negative impact on demand and GDP growth in the countries in question. Even if the dollar depreciates, US manufacturing would then be getting at most, a larger share of a smaller pie.

If other countries are reluctant to let their currencies appreciate against the dollar, US policymakers could attempt to force them. Trump has threatened to impose tariffs on imports from countries that refuse to let their currencies rise. Perversely, however, US tariffs would themselves make for a stronger dollar. US consumers would be induced to shift their spending toward now more economical US goods. This would create excess demand for domestic goods, fan inflationary pressure, and elicit interest rate hikes from the Federal Reserve. The latter would only push the dollar up. The result would be no net impact on US export competitiveness.

Rather than pressuring foreign central banks to raise interest rates, a future president could pressure the Federal Reserve to lower them. Trump has implied that he would expand the Federal Reserve Board to include more compliant members. He has suggested that the Fed should be required to consult with the president and pre-clear its interest rate policies. The next president will, in any case, have the opportunity to appoint a new, like-minded Chair of the Federal Reserve when Jay Powell's term as chair expires in 2026.

Lower US interest rates would clearly translate into a weaker dollar—other things being equal. But they would also translate into more inflation. If a weaker currency and higher inflation offset one another, which tends to be the case in the medium term, there is likely to be no net impact on US export competitiveness.

The benefits for US manufacturing may be dubious, but the costs to the United States, Korea, and the global economy are clear. If Trump's tariffs push up the dollar, leading him to resort to additional tariffs that further push up the dollar, destabilization of the global trading system could be severe. Tariffs that elicit foreign retaliation—as European countries and China are not apt to stand idly by—would make the problem even worse. For a country like South Korea that depends on global markets, and specifically the US market, the consequences would not be pretty.

Moreover, casting doubt on the independence of the Federal Reserve is likely to diminish the United States' attractiveness as a destination for foreign investment. Foreign investors—think South Korean companies building semiconductor fabs in the US Southwest—depend on the fact that US monetary policy is in the hands of a reliable institutional steward that prioritizes monetary and financial stability. They value the rule of law. Specifically, they look to the existence of checks and balances, of a division of powers, that prevents an autocratic executive from arbitrarily changing the rules of the game and prevents that executive from encouraging foreign investment today but turning around and taxing or expropriating it tomorrow. The US Supreme Court has already taken some steps to weaken judicial restraints on the executive branch, which will hardly encourage such investors. In this context, an attack on the country's independent central bank would further cause concern.

Of course, less foreign investment in the United States is one thing that would guarantee a weaker dollar. But less investment in the United States is hardly a recipe for improving the country's competitiveness.

Barry Eichengreen is George C. Pardee and Helen N. Pardee Chair and Distinguished Professor of Economics and Professor of Political Science at the University of California, Berkeley. He is a Research Associate of the National Bureau of Economic Research and

*Research Fellow of the Centre for Economic Policy Research. From 1997 to 1998, he was Senior Policy Advisor at the International Monetary Fund. In addition to more than a dozen books and publications about the international financial system, he is the co-author of *From Miracle to Maturity: The Growth of the Korean Economy*, published by the Harvard University Asia Center in 2012.*

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