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Donald Trump

Trump team questions the almighty dollar

Break from longstanding policy raises fears of new currency wars



Donald Trump showed little regard for the strong-dollar policy during the campaign © FT montage

JANUARY 17, 2017 by: **Sam Fleming** and **Shawn Donnan** in Washington

[Donald Trump \(http://next.ft.com/content/0a15c89c-dcb6-11e6-9d7c-be108f1c1dce\)](http://next.ft.com/content/0a15c89c-dcb6-11e6-9d7c-be108f1c1dce) has threatened to overturn two decades of US economic policy by questioning the strong value of the dollar, raising fears that his presidency could set off a [new round of currency \(http://next.ft.com/content/b921b994-dca3-11e6-9d7c-be108f1c1dce\)](http://next.ft.com/content/b921b994-dca3-11e6-9d7c-be108f1c1dce) wars between the world's major economies.

On Monday the president-elect appeared to break from the longstanding “strong dollar” policy of successive administrations, declaring that the currency was too high and that this was preventing US companies from competing with Chinese counterparts. “It’s killing us,” he said in an interview with the Wall Street Journal.

Speaking in Switzerland after Mr Trump’s comments, [Anthony Scaramucci \(http://next.ft.com/content/50376d50-dcaa-11e6-9d7c-be108f1c1dce\)](http://next.ft.com/content/50376d50-dcaa-11e6-9d7c-be108f1c1dce), a leading figure in the transition team, said the administration would need to take heed of the problems of a buoyant currency.

“In the Trump administration, there will be a lot of symbolism in terms of reaching out for lower-class families and middle-class families,” he said, adding that in doing so “we have to be careful about the rising currency because of not just what is going on internationally, but it’ll have an impact internally in the US”.

But Mr Scaramucci also suggested that if the new administration could create fast growth, it would allow the US to deal with the tighter monetary conditions that come with a higher currency.

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sworn fealty to a
strong dollar,
saying this was in

the interests of the US economy — even when the currency's value was arguably doing more harm than good at the time. This was part of a broader US strategy aimed at allowing the currency to find its own value rather than trying to micromanage the exchange rate.

With the dollar trading near 14-year highs against a basket of its peers, however, Mr Trump's team faces a serious barrier to its goal of reducing the US trade deficit.

The danger is that if the US starts suppressing the value of its currency it could trigger a broader currency war far greater in magnitude than the skirmishes seen in the wake of the 2008 global crisis. Besides China, such a war would draw in economies in Europe and Japan. It also would mark an unwinding of the longstanding G7 consensus that markets ought to set the value of currencies.

“We haven't seen anything yet. If the president of the United States begins talking the dollar down then we will have currency wars and it will make a mockery of the previous things that we thought were wars,” said Marc Chandler, global head of currency strategy at Brown Brothers Harriman.

He argued that Mr Trump could end up unwinding the G7 consensus, triggering instability in financial markets and

discouraging foreign investors from investing in US assets.

“This is a case where the stirrings of a currency war could set the ground for a broader trade war,” said Eswar Prasad, a Cornell economist and author of *The Dollar Trap*.

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Scaramucci illustrates willingness of new administration to comment on currency

“It does raise the spectre of trade tensions with many of the US trading partners. Once you give up the strong dollar policy and start focusing more on the [level of the] currency it does raise the prospect of bringing to a head many of the trade tensions with key trading partners

including Europe, Japan and China.”

Some analysts question the potency of such verbal interventions — especially at a time when Mr Trump’s apparent willingness to advocate deficit-widening tax cuts could bring forward interest-rate increases and add to the

dollar's strength. What is more, the president-elect's decision to criticise Chinese foreign exchange policies seems out of date: recently Beijing has not been seeking to push down its currency but rather to prop it up.

However, C Fred Bergsten, senior fellow at the Peterson Institute for International Economics, said Mr Trump was right to think the strong dollar policy was now misplaced, adding that the US currency was by his calculations overvalued by at least 10 per cent.

He said the exchange rate might prove the best route towards addressing the deficit compared with alternatives such as throwing the US economy into recession or erecting trade barriers. "If you could nudge it down through oral intervention, which this is, that is probably less risky than alternative efforts," he said.

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The complication, however, was that Mr Trump's other economic policies could end up pushing the currency higher. "Donald Trump comes in having made quite a high

priority in reducing the US trade deficit. The question is

how is he going to do that — particularly since his own economic policy — tax cuts, stronger growth probably inducing the Fed to tighten more rapidly — is going to make the dollar go up even more.”

That message was echoed by Lael Brainard, a member of the Federal Reserve board, on Tuesday. The governor and rate-setter said that more “expansionary” fiscal policy in the US could increase expectations of a divergence between US and overseas economic conditions and so push the exchange rate higher.

The US has notionally stuck with its strong-dollar mantra since the 1990s, but during the election campaign Mr Trump showed [little regard \(http://next.ft.com/content/a7439e70-1a7c-11e6-a7bc-ee846770ec15\)](http://next.ft.com/content/a7439e70-1a7c-11e6-a7bc-ee846770ec15) for the policy. “It sounds good to say ‘we have a strong dollar’. But that’s about where it stops,” he told one interviewer. His new interventions recognise that a strong dollar represents one of the main obstacles to his campaign promises to create manufacturing jobs in the Rust Belt states that swept him to power.

“In this one respect at least, Trump is certainly putting economic realism ahead of macho nationalistic bluster,” said Mr Prasad. “I think he, as a businessman, recognises the importance of the dollar’s value towards accomplishing what he wants to accomplish, which is trying to preserve US jobs in declining industries.”