CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 7, 2007

S. 1607
Currency Exchange Rate Oversight Reform Act of 2007

As reported by the Senate Committee on Finance on July 31, 2007

SUMMARY

S. 1607 would change the way the Department of the Treasury performs oversight of foreign currencies. It would require the department to identify any currency that is significantly undervalued relative to its equilibrium rate of exchange with the U.S. dollar, designate that currency as fundamentally misaligned (on each March 15 and September 15), and penalize—under antidumping law and through changes in international monetary policy—the countries involved should they fail to eliminate the misalignment within 90 days. If a country fails to act on the misalignment within 360 days, the bill would require that the U.S. Trade Representative seek recourse through the World Trade Organization. The President would be able to waive such requirements, but the Congress would be able to disapprove of such waiver. This legislation would only apply to currencies of countries that have significant trade with the United States or are of significance to the health of global capital markets.

The Congressional Budget Office estimates that enacting S. 1607 would increase revenues by $3 million in 2008, $27 million over the 2008-2012 period, and $29 million over the 2008-2017 period. Assuming appropriation of the necessary amounts, CBO estimates that implementing S. 1607 would cost $4 million in 2008, $20 million over the 2008-2012 period, and $40 million over the 2008-2017 period. CBO estimates that the bill would not affect direct spending.

CBO has determined that S. 1607 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no direct cost on state, local, or tribal governments.

CBO has also determined that S. 1607 would impose private-sector mandates, as defined in UMRA, on certain importers. CBO expects that the cost to those importers to comply with the mandates would fall below the annual threshold for private-sector mandates established by UMRA ($131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill over the 2008-2017 period is shown in the following table.

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN REVENUES												
Estimated Revenues	3	9	7	5	4	2	*	*	*	*	27	29
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	4	4	4	4	4	4	4	4	4	4	20	40
Estimated Outlays	4	4	4	4	4	4	4	4	4	4	20	40

Notes: Numbers may not add to totals due to rounding.

* = gain of less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by October 1, 2007.

Revenues

S. 1607 would require the Treasury to designate as “fundamentally misaligned” any currency if its prevailing real effective exchange rate is undervalued from its medium-term equilibrium level. If, after 90 days, the country involved has not eliminated the misalignment, the export price used for calculating antidumping duties would be increased to reflect its currency’s misalignment. (Antidumping duties are levied when a country sells a product in the United States for less than the product’s sale price in its home market or at a price lower than the cost of production.)

For this estimate, CBO identified currencies that would likely qualify as misaligned under the bill and estimated the effects of the bill accordingly. CBO does not expect the designation of currency misalignment would be common. Based on those assumptions, CBO estimates that this provision would increase revenues by $3 million in 2008, by $27 million over the 2008-2012 period, and by $29 million over the 2008-2017 period. CBO expects that the effects of the legislation would decline over time because such currency misalignments would gradually wane in the absence of legislation.

Spending Subject to Appropriation

S. 1607 would impose additional reporting requirements on the Department of the Treasury regarding international monetary policy and exchange rates. Those requirements would include identifying misaligned currencies and recommending specific actions to be taken in response to the currency undervaluation with the World Trade Organization and the International Monetary Fund. In addition, the legislation would establish an Advisory Committee on International Exchange Rate Policy, which would advise the Treasury on international policy and exchange rates. Based on the costs of similar reporting requirements and advisory committees, CBO estimates that implementing these provisions would cost $4 million annually, assuming appropriation of the necessary amounts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has determined that S. 1607 contains no intergovernmental mandates as defined in UMRA and would impose no direct cost on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 1607 would impose private-sector mandates, as defined in UMRA, on certain importers. The bill would require the Administration to take a series of actions against a country whose currency has been determined to be misaligned and has failed to adopt appropriate policies or has not taken identifiable action. Such actions would include increasing the price used to establish antidumping duties on products imported from that country. Those duties would most likely be paid by importers of such products. CBO expects that the cost to importers to comply with the mandate would fall below the annual threshold for private-sector mandates established by UMRA ($131 million in 2007, adjusted annually for inflation).

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