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AMERICAN COMPASS

# The Market Access Charge

## MAKE AMERICAN GOODS MORE ATTRACTIVE TO FOREIGNERS THAN AMERICAN ASSETS

## WHAT'S THE PROBLEM?

**America imports massively more than it exports**, leaving us deeply indebted to our trading partners.

Rather than exchange American goods for foreign goods, we import on credit, **sending back IOUs and ownership of our economy**, which future generations will pay for.

In the process, we allow the **erosion of American industry and innovation**, the **decline of manufacturing employment**, and the **collapse of communities**.

## MORTGAGING OUR FUTURE

Economists have long promoted the idea that goods should be made wherever is cheapest and that trade deficits are benign and self-correcting. They were wrong. Thirty years of escalating trade deficits have led to more than $13 trillion of trade debt. As a result, production jobs in manufacturing have declined by 35%, tearing the social fabric in countless communities. With industrial decline has come a collapse in domestic investment and a shocking surge in "deaths of despair" concentrated among middle-aged Americans without college degrees.

Some economists argue that foreigners buying up American assets instead of goods is a positive: "Investment in America." If foreign capital were used to enhance our productive capacity, it might be a fair trade—but that is not the case. In 2020, 96% of Foreign Direct Investment went to acquisitions rather than expansions or new enterprises. Foreigners are simply buying up our debt, equities, and real estate, laying claim to the nation's future prosperity.

## WHAT'S THE SOLUTION?

Policymakers have several options to bring American trade into balance. One is for Congress to pass a law authorizing the Federal Reserve to impose a Market Access Charge on the purchase of domestic assets by foreign entities.

The Board of Governors would:

- **Create an initial charge of 50 basis points on the value of incoming capital flows and revise the charge each year**, increasing it while the trade balance remains in deficit and decreasing it once trade is balanced.
- **Require banks to collect the charge at cross-border financial transactions** and place the revenue into an American International Competitiveness Account within the U.S. Treasury, to be used for improving global competitiveness.

## PROMOTING AMERICAN GOODS, NOT ASSETS

**This approach addresses a root cause of America's trade deficit: its capital account surplus.** America only runs a trade deficit because its trading partners prefer to exchange their goods for our assets rather than our own goods. By raising the cost to foreigners of purchasing American assets, such as stocks and bonds, foreign demand would shift toward American goods. "Trade" would shift toward genuine trade, of one country's product for another's, in exchanges beneficial to both.

**The revenue collected can be used to restore America's competitive edge.** The charge would not only alter capital flows directly, but also generate revenue that could be invested in long-term productivity improvement —for instance, infrastructure, training, innovation, and domestic manufacturing.

## FREQUENTLY RAISED OBJECTIONS

### "THE MARKET ACCESS CHARGE WILL RAISE THE COST OF CAPITAL FOR AMERICAN BUSINESSES"

Very little Foreign Direct Investment goes toward funding productive investment in the United States; rather, it is spent to acquire ownership of existing assets on secondary markets or to fund public debt. Access to capital has hardly been a challenge for American firms, which have experienced record-low interest rates and responded with record-high share buybacks and dividend payouts.

### "THE CHARGE WILL LEAD TO RETALIATORY CAPITAL CONTROLS BY OTHER COUNTRIES"

Other countries already regulate capital. Both India and China regulate capital flows to maintain strong export-led growth. If more Americans chose to allocate their capital to domestic investments, that would hardly be a disaster.

### "THE CHARGE WILL DEPRECIATE THE DOLLAR AND RAISE THE COST OF NECESSITIES"

The working class deserves more than just cheap goods. They need good jobs, strong communities, and a free and prosperous nation, all of which require a vibrant industrial base. The Charge provides a level playing field for American industry to anchor thriving local economies.

## FURTHER READING

**John R. Hansen. "Why the Market Access Charge Is Necessary to Fix Trade Imbalances." *Coalition for a Prosperous America*, 2017.**
The original proposal advocating a Market Access Charge.

**"The Balancing Act." *American Compass*, 2022.**
An in-depth exploration of globalization: how it works, its shortcomings, and potential solutions, including a Market Access Charge.

**"Weighing In" *American Compass*, 2022.**
A collection of essays on globalization, including a piece by Michael Stumo from the Coalition for a Prosperous America on the benefits of a "Market Access Charge."

**Senators Tammy Baldwin and Josh Hawley. "Competitive Dollar for Jobs and Prosperity Act." 2019.**

A Senate bill that would implement the "Market Access Charge."

## KEY FACTS

**$13T** U.S. total trade debt in 2020[1]

**40%** Share of U.S. corporate equities owned by foreign investors in 2019[2]

**$120B** Total Foreign Direct Investment (FDI) in 2020[3]

**96%** FDI used for acquisitions in 2020[4]

**2%** FDI used for new establishments in 2020[5]

**2%** FDI used for expansions in 2020[6]

## ABOUT AMERICAN COMPASS

Our mission is to restore an economic consensus that emphasizes the importance of family, community, and industry to the nation's liberty and prosperity. American Compass is a 501(c)(3) non-profit organization.

**For more information, visit americancompass.org**

[1] U.S. Census Bureau
[2] "Who Owns US Stock? Foreigners and Rich Americans." Tax Policy Center.
[3] U.S. Bureau of Economic Analysis
[4] Ibid
[5] Ibid
[6] Ibid