October 25, 1994. Some updating July 24, 1995.

Clinton's Dollar Policy and The Effectiveness of Foreign Exchange Intervention

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An earlier version of this article appeared (in French translation) in a special December 1994 issue of the Revue d'Economie Financiere, on the 50th anniversary of the Bretton Woods agreement. An excerpt appeared in The International Economy, May/June 1995, 14-15. The author would like to thank Kathryn Dominguez, Randy Henning and John Williamson for comments.

Intervention in the foreign exchange market undergoes alternating periods of fashion. In the early 1980s, intervention was out of fashion with the United States and other G-7 countries. With the Plaza Agreement of 1985, it entered a period when it was back in fashion. Now it appears once again to have gone back out of fashion. The European crises in the Exchange Rate Mechanism of 1992 and 1993 and the fall of the dollar below 100 yen in 1994, and as low as 80 yen in early 1995, are viewed by current critics as examples of failures of governments' exchange rate policies in general and of intervention in particular.

The historical record certainly supports the view that, in the absence of changes in macroeconomic fundamentals such as monetary policy, intervention usually cannot have a major impact on exchange rates for a long time. The historical record is also replete with instances of governments losing millions of dollars of taxpayer money in vain efforts to defend currency values that ultimately could not be defended. Nevertheless, to say that intervention cannot usually have an impact for very long is not to say that it cannot sometimes have an impact for long enough to be useful (a few months, for example). Furthermore, to say that governments have sometimes wasted money in ill-conceived intervention operations is not to say that other governments at other times have not conducted intervention operations intelligently and usefully (and even profitably). In particular, recent dollar purchases by monetary authorities in the United States and elsewhere have been sensible in direction and magnitude, even though they have to date been ineffective. Given the size of the markets, larger-scale intervention is not likely to be effective where existing efforts have failed. Yet intervention does sometimes work, when it is able to change investor expectations. Thus it is worth a try, when the currency appears to overshoot its fundamental equilibrium value as the yen has done in 1994-95.

This article briefly reviews the statistical record of intervention over the last ten years, enumerates five criteria that appear on average to govern whether intervention is likely to be effective, and then evaluates the record of the Clinton Administration in light of these criteria.

U.S. Policy Toward Intervention During the Reagan Administration

Throughout the period 1981-84, the first Reagan Administration had an explicit policy of laissez faire (or "benign neglect") toward the foreign exchange market.[1] The policy was non-interventionist in the general sense that the movement of the dollar was not seen as requiring any sort of government response, or indeed to be a problem. The policy was also non-interventionist in the narrower sense that the authorities refrained from intervening in the foreign exchange market, that is, from the selling (or buying) of dollars in exchange for marks, yen or other foreign currencies. The Under Secretary for Monetary Affairs, Beryl Sprinkel, announced in the third month of the Administration that its intention was not to undertake such intervention at all, except in the case of "disorderly markets."

For Sprinkel, a long-time member of the monetarist "Shadow Open Market Committee" and follower of Milton Friedman, the matter was a simple case of the virtues of the free market. Under floating exchange rates, the price of foreign currency is whatever it has to be to equilibrate the demand and supply of foreign currency in the market; it is, virtually by definition, the "correct price." Attempts by the monetary authorities to intervene in the foreign exchange market to keep the value of the currency artificially high or artificially low are unsound gambles with the taxpayers' money, as likely to be counterproductive as attempts by the Department of Agriculture to intervene in the market for grain to keep the price of grain artificially high or artificially low.

Indeed, according to the monetarist model, intervention would not have any effect in the market to the extent that it was sterilized, i.e., to the extent that it left money supplies unchanged. This is the position Sprinkel took when his French counterpart Michel Camdessus tried to argue the desirability of foreign exchange intervention in preparations for the 1982 Summit of G-7 heads of state at Versailles.[2] The French argued that foreign exchange intervention did provide an independent and useful tool. The Americans agreed to form an inter-governmental working group to study the question (and to enact a process of "multilateral surveillance" by the Group of 5). The subsequent findings of the working group, the so-called Jurgenson Report, were widely perceived as tending to support the Sprinkel position.[3]

The pivotal event in the making of American exchange rate policy in the 1980s was the shift from a relatively doctrinaire laissez-faire policy during the first Reagan Administration, to a more flexible policy of activism during the second Administration. By 1985 the value of the dollar had soared to so high a level, and the U.S. trade balance had plummeted to so low a level, that the political process demanded some sort of response. At the same time, a new team of policy-makers took the helm at the Treasury (Secretary James Baker and Deputy Secretary Richard Darman), and they were not restricted in the strategies they were willing to try by either of the two constraints binding their predecessors: an economic ideology that forbade intervention in the foreign exchange market, and a guiding principle that anyone who considered side-effects of the existing macroeconomic policy mix such as the strong dollar to be a "problem" lacked the requisite loyalty to the President's program.

On September 22, 1985, the G-5 Ministers met at the Plaza Hotel in New York. They agreed upon an announcement that "some further orderly appreciation of the non-dollar currencies is

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[1] The history of exchange rate policy under the Reagan Administration is narrated by Destler and Henning (1989), Frankel (1994), and Funabashi (1988).

[2] Putnam and Bayne (1987, p.133).

[3] Henderson and Sampson (1983) summarize the intervention research undertaken at the Fed for the G-7 report.

desirable," and that they "stand ready to cooperate more closely to encourage this when to do so would be helpful," language that by the standards of such communiques is considered (at least in retrospect) to have constituted strong support for concerted intervention, even though the word "intervention" did not appear.

On the Monday that the Plaza announcement was made public, the dollar fell a sudden four per cent against a weighted average of other currencies. Substantial intervention was reported in the newspapers the next day. Subsequently, the dollar resumed a gradual depreciation at a rate similar to that which had prevailed since the February peak in the dollar.

Because the rate of depreciation in the six months after the September meeting at the Plaza, was no greater than in the six months before the Plaza, Feldstein (1986) argued that the change in policy had no effect. This logic is far from conclusive, however. Despite all the attention that the Plaza announcement has received, there are reasons to date the critical change in intervention policy as having come earlier, in February 1985, in which case the timing fits well the sharp turnaround in the value of the dollar.[4]

Almost ten years have passed since the Plaza. The U.S. and other governments have periodically intervened in the dollar market, sometimes in one direction, sometimes in the other. During most of this period, market participants believed that such interventions were important: traders would leap for their terminals when reports on central bank sales or purchases came out.

A Statistical Analysis of the Effects of Intervention in the 1980s

While most American economists still retain the early-80s view as to the ineffectiveness of intervention, experience would seem to justify a closer look. A study released recently by the Institute for International Economics (Dominguez and Frankel, 1993b) re-examined the issue. Using previously-unavailable data on daily intervention by the Bundesbank and Federal Reserve since 1985, we found statistically significant effects. In ten out of eleven major episodes during the period 1985-1991, the DM/$ rate in the month subsequent to the episode moved the direction in which the monetary authorities were trying to push it. Another study at the Bank of Italy extended the data set to include intervention operations by other central banks, and claimed to find even stronger evidence of effects on the exchange rate.[5]

The econometric part of the Dominguez-Frankel study seeks to disentangle two distinct possible effects of intervention. First is the portfolio effect that may result from actual purchases and sales of marks and dollars in the marketplace (regardless whether the central bank's actions are publicly known at the time, or are kept secret in the way the New York Federal Reserve sometimes has in the past). Second is the additional expectations effect, whereby public reports of intervention may alter expectations of the future exchange rate (regardless whether the intervention has in fact taken place), which will feed back to the current equilibrium price. The study uses data that had not been widely used by other researchers: in addition to the daily intervention data, it uses newspaper reports on intervention, survey data on the expectations of market participants, and a measure of portfolio risk. Results show significant effects of intervention through <u>both</u> of the two channels, though only in the case of the expectations effect is the impact estimated to be quantitatively large.

The record offers a number of lessons as to when intervention was most likely to be effective.

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[4] Most of the reasons, explained in Frankel, 1994, are not chosen *ex post*.

[5] Catte, Galli, and Rebecchini (1992, 1994). Edison (1993) surveys recent empirical research on intervention.

* First, the conventional wisdom is correct that, because the foreign exchange market is now so large (some one trillion dollars in daily turnover, worldwide), purchases and sales on the scale that governments are generally prepared to make will not have much effect *if the market is already firmly convinced of the proper value of the currency*. This is particularly relevant when the government is trying to support a parity that is no longer justified by macroeconomic fundamentals; but even if the government believes it has fundamentals on its side, it will still lose any battle in which the market is determined to be on the other side. *The successful effect of intervention comes when the market holds weak views as to the true worth of the currency, and is willing to be led by the authorities.* A good example of this was the dollar in 1985. (Perhaps this was also true of newly-credible European parities during the period before 1992.)

* Second, the initial intervention in any given episode during the sample period 1985-1991 had a greater effect than follow-up interventions on subsequent days. Surprise may be an important element. The effort generally has an effect within the first few days or weeks if it is going to have an effect at all.

* Third, the operations are more likely to be effective if they are "concerted," i.e., coordinated among a number of major central banks. It is particularly important that the U.S. be one of the countries participating.

* Fourth, the major effect comes via expectations. The average effect of reports of intervention (by wire services and newspapers) on forecasts (of what the rate will be one month ahead) was 0.4 per cent, and this effect translated almost one-for-one into the contemporaneous spot exchange rate itself. Thus intervention should be revealed to the public if the authorities wish it to have a major effect. Explicit announcements by U.S. officials have even greater effects (about 0.8 per cent) than when the New York Fed merely allows the banks through which it trades to share the information. Examples include the Plaza statement of September 1985, the Louvre statement of February 1987, and the Bush Administration's "ambush" to reverse dollar appreciation in July 1991.[6]

* Fifth, the government should not expect to be able to affect the exchange rate for a long period, absent a corresponding change in fundamentals. The effect appears usually still to be present one month after the intervention. Whether the effect is still there a year later is impossible to say. But even short-term effects can be useful. Examples of episodes where the effect lasted long enough to be useful include such operations as the "pricking of the dollar bubble" in 1985, the "bear squeeze" of January 1988 -- which supported the dollar as a bridge until expected improvements in the trade balance materialized -- and the successful placing of a floor and ceiling, respectively, on the dollar in February and July 1991.

Exchange Rate Policy During the Clinton Administration

The foreign exchange policy of the Clinton Administration has been roundly criticized in the financial press, so much so that most American readers would be surprised to hear of anyone defending the policy. The conventional wisdom is that Clinton and his Treasury officials adopted a policy of talking down the dollar, that they did not abandon this policy until recently, and that when they finally started to intervene to support the dollar it was too little too late. A more careful reading of the record reveals a different story, if actual statements and actions by government officials are taken to be the record, rather than newspaper accounts that get their information from each other.

[6] Dobson (1991), Destler and Henning (1989), Dominguez and Frankel (1993b), Frankel (1994), and Funabashi (1988).

The period during which Clinton officials could fairly be said to have talked down the dollar consists of the first couple of months of the new Administration. On February 19, 1993, Treasury Secretary Lloyd Bentsen, after a speech to the National Press Club in Washington, was asked "In general, would you like to see a weaker dollar?" His response was "I'd like to see a stronger yen". This was the one time the Treasury said it favored a dollar depreciation, to the extent a stronger yen is correlated with a weaker dollar.[7] (To call this one statement a "policy" is a bit misleading, because there is no evidence that it was premeditated or the result of any inter-agency process. But if it wasn't, then it probably should have been.)

Perhaps the most widely quoted statement was by President Bill Clinton. On April 16, 1993, after a meeting with Japan's prime minister of the season Kiichi Miyazawa, the President was asked at a press conference why he expected trade relations with Japan to improve and the U.S. trade deficit to come down [as compared with previous administrations]. He answered that "...there are three or four things working today which may give us more results: Number one, the appreciation of the Japanese yen." This was a statement of the fact that the yen had appreciated against the dollar by some 30 per cent over the preceding four years, and of the relationship that most economists believe exists between the exchange rate and the trade balance. The President could fairly be accused of showing off his knowledge of economics. He cannot fairly be accused of saying he wanted the yen to appreciate further than it already had.

There were in 1993 a few other official statements on exchange rate policy by Treasury Under Secretary for International Affairs Lawrence Summers. They were of the same nature as the President's statement: "The yen's rise earlier this year, if sustained, would eventually provide some counterweight to the forces tending to increase Japan's surpluses."[8]

The yen appreciated substantially against the dollar during the first three months of the Administration, and perceptions that the U.S. wanted a weaker dollar were certainly a major cause of this movement. It is not clear that this was such a bad thing. The Japanese trade surplus had been back on the rise, more than doubling from 1990 to 1992. If there was ever to be any further yen appreciation to reduce the trade balance during the new U.S. Administration, it was probably a good thing to get the exchange rate change out of the way early in the year: If market participants thought that a dollar depreciation lay in the future, their response would push up U.S. interest rates in an undesirable way.

The question regarding the desirable path for the yen could also be argued the other way: purchasing power parity, for example, gives a very different answer as to the proper value of the yen/dollar rate than does a trade balance criterion. The point for present purposes, however, is that, if the Administration has ever had a policy in favor of yen appreciation, it can at most ascribed to a very small number of statements during the first year in office. There has hardly been the steady drum-beat of official statements by Treasury policy-makers urging a weaker dollar that market

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[7] The major movement of 1993-94 has in fact been an appreciation of the yen. The dollar has been fairly steady against other currencies overall: The average value of the dollar was down only 1.4 per cent between December 1992, before Clinton took office, and August 1993 (Federal Reserve Board effective rate).

[8] Department of the Treasury, *Report to the Congress on International Economic and Exchange Rate Policy*, May 25, 1993, p.6. This statement appeared in a section describing trade balance forecasts and the factors that go into them. As Henning (1994, p.395) points out, Treasury officials deliberately avoided commenting on desirable levels for the exchange rate, and wrote in the May and November semi-annual reports that manipulation of the foreign exchange market was inappropriate.

participants have been led to believe there was.[9]

Of course journalists and market participants are routinely forced to look behind seemingly innocuous statements by monetary authorities for signals as to what they really believe. If the press and the market are interpreting the officials incorrectly, it is the job of the latter to make their views clear.

This is precisely what the Treasury did. On April 27 and 28, 1993, immediately before a G-7 finance ministers' meeting in Washington, Secretary Bentsen said that the Administration was not seeking a further fall in the yen/dollar rate. "What we wanted to see was a further stabilization of the situation." A skeptic might remark that talk is cheap, and suspect the sincerity of the statement. But the Treasury put its money where its mouth was, joining the Japanese in market intervention to sell yen for dollars. On August 19, 1993, Summers said that the government was "concerned that the recent rapid rise in the value of the Japanese yen could retard growth in the Japanese and world economies." Again the U.S. authorities intervened, in effect putting a floor under the yen/dollar rate. Anyone who thinks that there was a dollar-depreciation policy throughout the first half of the Administration must explain why the government has repeatedly intervened in support of the dollar since April 1993. Unlike the Bush and Reagan Admininstrations, which sometimes intervened to push the dollar down, the Clinton Administration has only bought dollars.

The interventions of May and August, 1993, could be taken as textbook examples of successful intervention, at least they can if the Dominguez-Frankel study can be taken as the textbook.

* First, the interventions came at a time (like 1985) when the market was unusually unsure about the direction in which it thought the exchange rate would go,[10] and about what the Administration policy was.
* Second, both the May and August interventions were widely reported to have caught the market by surprise.

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[9] Admittedly, when the yen returned to a lower value at the start of 1994, Administration officials made background comments to journalists that constituted warnings to Japan of the connection between failure to make progress on the trade front and renewed upward pressure on the yen. In particular, it can be surmised that when the U.S. Trade Representative allowed the U.S.-Japan "Framework Talks" to break down in February 1994 and the yen appreciated in apparent response, U.S. officials were pleased at this evidence of their leverage over Japan -- at least until they saw the danger that this trend in the yen/dollar rate would contribute to recent increases in U.S. interest rates. In every Administration it is difficult for officials in such agencies as the Commerce Department and the Office of the Trade Representative to understand how much effect the most subtle comments can have on financial markets. This article's general exhoneration of the Treasury's policy with regard to the dollar does not extend to the Trade Representative's policy with regard to Japan.

[10] A measure of disagreement among forecasters, computed from a survey conducted by Currency Forecasters Digest (the spread between the average of the five highest respondents and the average of the five lowest when asked for forecasts of the yen/dollar rate one year into the future) was 28 per cent in late April 1993 and 30 per cent in late July. By comparison, it was only 17 per cent at the end of 1992, before Clinton's Inauguration, and 19 per cent more recently, in late September 1994. [Another survey, conducted throughout the 1980s by MMS International, shows particularly large disagreement in early 1985, before the Plaza.]

* Third, the interventions involved both the U.S. and Japanese authorities.
* Fourth, the interventions were made public. As in September 1985 and July 1991, Treasury officials issued explicit statements explaining their rationale for the operations.
* Fifth, the intervention operations were backed up with some support in monetary fundamentals, in the form of Japanese reductions in the call money interest rate in August 1993.

Whether because of these five attributes or by luck, the mid-1993 intervention operations appear to have been very successful. The yen/dollar rate had previously been on a steady downward slide; in late August, it hit 101, on a trend such that a crossing of the 100 mark seemed imminent. After the August 19 intervention, the dollar immediately appreciated 4 per cent in four hours. The trend reversed, and the exchange rate did not test the same level for another 9 months.

The U.S. currency depreciated again in the spring of 1994. It fell not only against the yen, as in the previous year, but against the mark as well. The dollar reached 101 yen on May 4. The U.S. authorities bought dollars on April 29 and May 4 in cooperation with other central banks. The latter concerted operation involved 18 other central banks including the Bank of Japan and Bundesbank. Bentsen explained clearly, "This Administration sees no advantage in an undervalued currency. The monetary authorities of the major countries are joining this morning in concerted intervention. These operations reflect our view that recent movements in exchange markets have gone beyond what is justified by economic fundamentals." On May 15, he repeated that earlier Administration statements had been misrepresented. "There was a misinterpretation that we want to see the dollar go down." Again the intervention-plus-statement succeeded in turning the decline around for the time being.

This episode was also accompanied by some little-noticed adjustments of monetary fundamentals in support of the exchange rate objective. In coordination with the May 4, 1994, intervention operations, the Bank of Japan lowered its interest rates to record levels. The Bundesbank lowered its discount and Lombard interest rates 50 basis points at the scheduled meeting of its Directorate two days later, and the U.S. Federal Open Market Committee decided to raise its Fed funds target rate and discount rate another 50 basis points at its next meeting on May 17.

On June 22-24 the dollar hit the 101 yen level for the third time, and 17 central banks again intervened to buy dollars. U.S. intervention on June 24 was $1.56 billion, a record. This time the dollar purchases did not work: the yen/dollar rate fell below the magic 100 mark on June 27 and hit a post-war low of 96.55 on July 12. One of the reasons widely reported in the financial press for the failure of these operations is that this time they did not catch the market by surprise.[11]

Treasury officials continued to say they opposed a depreciation of the dollar (June 22, June 24, June 27, June 28, June 29, July 8, and July 21[12]). Commentators, however, continued to doubt the veracity of these statements. Traders would insist that the Administration had spent the

[11] There were suggestions that another of the five desiderata for successful intervention, unity among the major governments, was also missing on June 22-23. Specifically, the Bundesbank has reportedly been increasingly reluctant to join in, though they did on June 24 [*Wall Street Journal*, *Financial Times*, June 24, 1994; *New York Times*, June 25.] Other sources, however, say that the timing of the operations was not in fact affected by any issues of consensus with the Germans.

[12] The July 21, 1994, semi-annual Treasury report to Congress observed that "the Administration has expressed concern over the dollar's recent movements against the major currencies, noting that they have not been in line with fundamental conditions and that a stronger dollar would be desirable." [p.2]

preceding year and a half talking down the dollar. By way of evidence, they would cite news reports as their source. Reporters, in turn, would insist that the Administration must really "have a policy" of depreciating the dollar even it said the opposite. As evidence they would cite the observation that traders believed this. Few noted the circularity.

In early July 1994, the Treasury essentially put a temporary moratorium on intervention operations in support of the dollar. There is no point fighting the market when it is determined to move in a particular direction. Thus the Administration's decision was probably wise. It had successfully used intervention three times to hold the line above 100 for over a year[13] -- a much longer span of time than they had spent "talking the dollar down" before that. But there are definite limits to how much intervention can accomplish. He who runs away lives to fight another day.

To use a metaphor, the foreign exchange market is a 1,000 pound gorilla, and intervention is a flimsy leash. When the gorilla has a good idea where he wants to go, there is not much point trying to restrain him with the leash. This is not the same as saying that intervention can never be effective. There are times when a 1,000 pound gorilla is willing to be led. But the summer of 1994 was not such a time.

A coordinated but little-noticed intervention operation on November 2, 1994, successfully supported the dollar against the mark and yen. Widely-noticed operations in March and April, 1995, on the other hand, again failed miserably. These interventions were ineffective despite back-up that in the past has usually had effect: repeated statements by the new Treasury Secretary Robert Rubin that "A strong dollar is in our national interest," simultaneous statements in support of the dollar by Bundesbank President Tietmayer and Fed Chairman Greenspan, reductions in interest rates by the Bundesbank and the Bank of Japan at the end of March, and a statement from the G-7 Finance Ministers on April 25. The latter was universally dismissed as weak, even though it was in fact worded as strongly as the famous Plaza and Louvre communiques of 1985 and 1987. A new intervention on May 31, 1995, however, was widely judged highly successful. Market traders, in praising the skill with which these early-morning operations were carried out, cited the degree of coordination and surprise.

A Taxonomy of Four Cases

Table 1 illustrates schematically four possible cases regarding intervention. One distinction bears on when intervention can be effective. It consists of the distinction whether or not the market has a firm view on what the value of the currency should be. If it does, then no amount of sterilized intervention is likely to dislodge the exchange rate; but if the market is unsure, then, as we have seen, intervention can have an effect. The other distinction bears on whether it is *desirable* for intervention to be effective. It consists of the distinction whether the government has a better or worse perception of the correct value of the currency. If the government has a more accurate perception, then it will be a good thing if it is able to move the exchange rate in that direction; but if it does not, it would be a bad thing.

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[13] Even though these important bouts of dollar purchases occurred near the 101 level, there is no reason to think that Treasury officials were trying to signal to the market a target zone or other limit or goal regarding the level of the dollar. Rather, their major motive appears to have been to counteract impressions they wanted the dollar to depreciate, to instill a sense of two-way risk in the market, and to avoid unnecessary upward pressure on U.S. interest rates.

Table 1: When Does Intervention Work, and When Is It Desirable? Four Cases

	Market is sure of itself => intervention won't work.	Market is unsure of itself => intervention can work.
Market perceptions of fundamentals are better than the government's.	1) It is just as well that intervention fails. E.g.: pound & lira 1992.	2) Effect is to keep exchange rate away from fundamentals. E.g.: ERM in 1991.
Government may know better than the market.	4) It is too bad that intervention fails. E.g., franc in Aug.1993; ?/$ in Mar.-Apr. 1995	3) Effect is to move exchange rate toward fundamentals. E.g., dollar in 1985; ?/$ in summer of 1993.

American economists tend to assume that one is always in the first square (1) of the two-by-two diagram, when intervention is neither desirable nor effective. To be sure, the foreign exchange market probably belongs in this square more often than anywhere else. A prime example would be September 1992 in Europe, when intervention to support the pound and lira within the Exchange Rate Mechanism constituted an effort to keep these currencies at overvalued levels, and was ultimately unsuccessful against the massive onslaught of mark purchases from speculators who knew better.

The second square (2) is one where the government suffering from delusions, as in the first case, but where the market is sufficiently unsure of itself that is willing to be led along. An example here is the ERM in 1991. The "shock" of high real German interest rates, calling for an appreciation of the mark against the pound and lira, had already taken place. But the monetary authorities had accumulated sufficient credibility over the preceding five years that they were able to convince the market to go along with their dreams of enhanced currency stabilization. The year or two preceding the 1992 collapse was like the few seconds when the Road Runner cartoon character runs off the edge of the cliff, but has not yet noticed that there is nothing holding him up.

In square (3), the authorities again are able to lead the market along, but this time they are wise enough to lead it toward the level justified by fundamentals, rather than away from it. The prime example is 1985, when G-7 intervention helped end the overvaluation of the dollar. This article has argued that the summer of 1993 was another instance when U.S. Treasury intervention was both effective and in the right direction, in that it prevented the dollar from a depreciation (to 100 yen) that would have had little basis in fundamentals.[14] Square (4) is the last logical possibility, when the authorities are seeking to push the exchange rate in the right direction, that is, consistent with the fundamentals, but are unable to do so in the face of firm opposition from the market. The ill-fated efforts to support the French franc in August 1993, and the dollar in the summer of 1994

[14] The briefly successful intervention in November 1994, pushing the dollar back up against the yen, is another case in this category.

and March-April of 1995, are examples of this case.

Administration exchange rate policy has not been the clumsy exercise, lacking respect for the power of the markets, that some make out. Perhaps some would argue that the Secretary of the Treasury should never offer a word of commentary on the exchange rate. Certainly some American economists would argue that the Treasury should never intervene in the markets. But for those who hold less extreme views, it is hard to see how the Treasury could have been much more successful in its three defenses over a 14-month period before the exchange rate crossed the 100 line (April 1993-May 1994), or much more deft in stepping out of the way of the rampaging gorilla when further depreciation looked inevitable at the beginning of July 1994. A critic can question any one of these three actions, wishing for a weaker dollar if one is primarily concerned about the U.S. trade balance, or a stronger dollar if one is primarily concerned about U.S. inflation and interest rates. Ultimately however, these are matters with which macroeconomic policy must deal. From their actions, it appears that Administration officials know this, that they have the appropriate healthy respect for the power of the markets, and that they have the skill to exercise on occasion the intervention tool effectively, within the fairly narrow limits to which it is inevitably subject.

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(in the summer of 1993 journalists finally began to report that officials sounded sincere in their pronouncements that they did not want the dollar to fall)

Kantor, U.S.-Japan talks, etc.

Then why the reports

Bergsten-Bentsen

market players cite the journalists, who cite the markets

In July 1994, the Treasury essentially put a moratorium on intervention operations in support of the dollar for the time being....

fn 15:

This moratorium was essentially confirmed on October 21 when Secretary Bentsen told reporters in Seattle that the U.S. has "no plans to intervene" to buy dollars, even though he would like to see the dollar "up a little." When the market once again interpreted this as an effort to talk down the dollar, Bentsen and Summers were forced to issue clarifications.

p.1

it appears to the author that the exchange rate policy of the Clinton Administration has overall been rather good to date, as shocking as such an assertion would be to any reader of the American (or British) financial press.

from p.9

Left to itself in July, the market soon tired of the game. It decided that 96 yen to the dollar was far enough, and the exchange rate was relatively stable over the next few months. There is an analogy with the French franc crisis of August 1993. In the face of heavy speculative capital flows, the European authorities were forced to abandon the narrow band for the French franc. And yet soon after they did, the exchange rate returned to its old range voluntarily.

from p.10

much more subtle in its February 1993 downward nudge on the yen/dollar rate,

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REMOVED FROM END OF NARRATIVE OF CLINTON INTERVENTION EPISODES

Faced with the market's seeming imperviousness to their actions, the authorities again ceased their fire.