Working Paper

Time For a Plaza II??

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The Plaza-Louvre in Retrospect[1]

The Plaza Agreement of September 1985, and its successor Tokyo summit and Louvre Accord over the succeeding eighteen months, represent the high water mark of international economic policy cooperation and indeed coordination over the entire postwar period from 1945 until today. They created a model that has not been replicated during the past thirty years.

There have been numerous other international efforts to correct currency disequilibria. They have taken place under both fixed and flexible exchange rates. They have taken place both before and after Plaza-Louvre.

A number of emergency meetings of the G-10 sought to resolve sterling crises in the 1960s. The Franco-German imbalance was addressed in 1968-69. Most prominently, the Smithsonian Agreement established a new set of parities after the United States suspended the convertibility of the dollar into gold and adopted an import surcharge in 1971.

The Bonn summit of 1978 broke new ground by implementing quantitative growth targets and energy policy initiatives, to remedy international imbalances, rather than addressing exchange rates per se. The yen-dollar rate was a policy focus for the United States and Japan from the middle 1970s through the middle 1990s, before and after Plaza-Louvre. Chinese manipulation of the relationship between the dollar and the RMB has been a centerpiece of global concern for most of the last decade.[2]

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[1] The comments of William Cline, Charles Dallara, Jeffrey Frankel, Joseph Gagnon, Ted Truman and John Williamson on earlier drafts are greatly appreciated. Abir Varma provided invaluable research assistance.
This account of Plaza-Louvre draws heavily on the definitive study of the period by Yoichi Funabashi: *Managing the Dollar: From the Plaza to the Louvre*, Washington: Institute for International Economics, second edition, 1989. Funabashi interviewed all but one of the ministers and central bank governors who negotiated the agreement (including of course Secretary Baker, Assistant Secretary Mulford, Assistant Secretary Dallara, Chairman Volcker and his chief lieutenant Ted Truman) as well as a who's who of other government officials and outside observers listed in the book.

[2] Europe has of course experienced a series of regional currency crises as well, most notably the exits from the European Monetary System in 1992 and those that have occurred in different form since the creation of the euro. These have obviously affected the world economy but this paper addresses only those issues that involved direct participation by wider groupings of countries.

Two characteristics distinguish Plaza-Louvre from these other episodes. First, it worked. The near-term goal of a 10-12 per cent decline of the dollar was achieved on time with less intervention than the countries agreed at the Plaza (Ito 2015, citing Gyohten 2013). The dollar ultimately declined by about 50 percent against its main targets, the yen and the DM, of which 36 percent occurred between the Plaza and the Louvre. The US current account deficit, which had soared to unprecedented heights (peaking at a then-record 3.5 percent of GDP in 1987 due to the two-year lag between currency movements and recorded trade outcomes), virtually disappeared by 1990-91. The acute protectionist pressures in the Congress, which were a major motivation for the Baker Treasury to initiate the process (see below), were largely quelled and the relatively open world trading system was preserved. The stock market crash of late 1987 resulted partly from disagreement between the United States and Germany over implementation of the Louvre Accord but had very little impact on the real economy.

None of the other international currency initiatives recorded remotely equivalent payoffs. The new parities agreed at the Smithsonian held for only a few months, a new round of realignments was negotiated in early 1973, and generalized floating commenced within a month when they too failed precipitously. The Bonn summit commitments were pursued in good faith but the Iranian revolution and second oil shock derailed them in less than a year. Years of negotiation on yen-dollar failed to appreciably reduce the US and Japanese imbalances, aside from Plaza-Louvre, or to deter the Japan-bashing of that era; only the collapse of the Japanese economy in the early 1990s eventually accomplished the latter (Bergsten, Ito and Noland 2001). The exchange rate of the RMB has risen substantially, and the Chinese current account surplus has declined considerably, in recent years but only after a decade of huge imbalances and repeated displays of US and IMF impotence in resolving the problem.

Second, Plaza-Louvre produced a degree of genuine international cooperation that remains historically unique. All participating countries agreed that the markets had overshot enormously, that protectionist pressure in the US Congress posed a major risk to the world trading system and thus had to be countered, and that coordinated direct intervention in the foreign exchange markets could make a major contribution to resolving these problems. All of the other episodes cited above generated intense enmity among the parties both at the time the issues were addressed, usually amidst crises in the financial markets, and on a more lasting basis. Plaza-Louvre obviously could not avoid tensions and disputes altogether, and the degree of rancor apparently increased as the process evolved over its roughly two-year duration. But there was a true convergence of views at the initial Plaza phase that clearly separates it from virtually all of its predecessors and successors.

The Plaza-Louvre had three key sequential components. The Plaza Agreement itself aimed to correct the obvious and substantial overvaluation of the dollar, especially against the yen and DM. Its G-5 participants agreed to take significant adjustment initiatives (which they did not follow through on) and to intervene directly in the exchange markets to promote that outcome (which they did).[3]

The Tokyo summit of 1986, which has traditionally received much less attention than either Plaza or Louvre, was in fact the most ambitious part of the entire initiative. In an attempt to both clarify the goals of the Plaza and provide more policy tools to achieve them, Tokyo adopted an unprecedented (before or after) set of guidelines for coordinating a wide-ranging set of national economic policies. The extent of those commitments, while well-intentioned, soon proved to be too extensive to sustain, however, and most of them were never implemented.

The Louvre Accord of early 1987 thus reverted to the narrower exchange rate focus of the Plaza itself, adopting a set of target zones (which they called "reference ranges") between the major currencies to try to limit future declines (but also renewed appreciation) of the dollar. The goal was to restore greater stability in the currency markets and the world economy more broadly. The agreed yen-dollar zone had to be rebased shortly but then held for some time, while the DM-dollar range did not hold for long.

There are three criticisms of Plaza-Louvre. The first is that it relied too heavily on exchange-rate corrections and produced very little change in underlying policy stances ("the fundamentals"). In particular, the United States failed to explicitly address its burgeoning budget

[3] The G-5 deputy from Japan, Toyoo Gyohten, visited my office on the day after the Plaza and called from there an order to his lieutenants in Tokyo to sell $1 billion, which represented a very large (unprecedented?) amount of intervention at the time. Ito (2015) confirms that Japanese sales that first post-Plaza market day in Tokyo actually amounted to $1.3 billion.

deficits. The landmark tax reform of 1986 did produce a temporary improvement of about $100 billion, however, and Secretary Baker told me at the time that "maybe 10 percent" of his successful effort on that front could be attributed to his using the international coordination argument.

The second criticism of Plaza-Louvre is that it occurred outside the multilateral institutional framework, centered on the International Monetary Fund, that obtained at the time (and now). The subgroups (G-5 and later G-7) that carried out those initiatives, however, had come to be widely regarded as legitimate steering committees for the system, including the Fund itself, and had been the locus of all former currency efforts . Confidentiality concerns alone required keeping the operations as small as possible and this was certainly true of Plaza-Louvre, whose powerful impact on markets was due importantly to their shock effects. The IMF did come into the process at the Tokyo summit but the entire process was multilateral, in any event, in the sense that almost all the major players of the time were intimately involved.

The third criticism, from Martin Feldstein and others, is that the Plaza had no real effect on exchange rates and that the dollar correction would have occurred anyway solely through market forces. However, the markets had gone wildly off course in overvaluing the dollar in the first place and its exchange rate had begun rising again (after several months of depreciation) just before the Plaza. No one can know the counter-factual.

The bottom line is that <u>Plaza-Louvre was a uniquely successful and relatively harmonious interlude in the generally ineffectual and contentious history of postwar international economic and monetary relations, which continues to this day</u>. Former Secretary Baker (2006) did not overstate when, upon leaving the Treasury in 1988, he told President Reagan that "a new system of multilateral economic policy coordination" would be one of his three initiatives that "will be widely judged to have lasting significance" (along with tax reform and the United States–Canada Free Trade Agreement). On the thirtieth anniversary of that initiative, it is thus instructive to assess its implications for contemporary and prospective policy. I will attempt to do so and then conclude that we may need a Plaza II at some point in the relatively near future to address the new set of international imbalances and currency misalignments that are already developing and are likely to expand much farther, and that so far have failed to stimulate any similarly constructive policy response.

The Lessons From Plaza-Louvre

Lesson #1: The United States must lead. The US failure to participate actively in international monetary cooperation, let alone lead it, during the first Reagan Administration permitted (indeed strongly encouraged) the massive dollar appreciation and buildup of huge imbalances (for that time) that triggered intense Congressional protectionist pressure and necessitated the Plaza.[4] The other limited successes cited above, from the Smithsonian to the more recent yen and RMB cases, occurred only because the United States pushed for them(with greater or lesser skill and determination). There is no example of successful global monetary cooperation without a lead from the United States.

It is unclear whether US leadership can prevail today as it did in 1985-87. The United States failed to satisfactorily resolve the yen and, especially, RMB problems in more recent decades. The international monetary system, like the global political order, has become increasingly multipolar and the relative power of the United States has declined. Monetary affairs appear to be moving, over the next decade or two, toward an essentially tripartite structure resting on the euro (if the zone recovers, as I think it will) and the RMB along with the dollar. But the United States will remain *primer inter pares* for the foreseeable future, especially as the eurozone continues to falter and China maintains a measured pace in internationalizing the RMB.

We may, however, increasingly experience a no-leadership, or G-0, world. This can matter a great deal. Kindleberger (1973) blamed the Great Depression largely on the advent of a leaderless non-system in the 1930s when "the United Kingdom was no longer able to lead and the United States was not yet willing to do so." As a result, no one provided the necessary global public goods (open markets, sizable lending, an international currency) to ward off the

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[4] Those consequences of Reaganomics were accurately foreseen in my Congressional testimony of February 1981 (Bergsten 1981) and subsequent articles. The only comparable analysis was by Otto Eckstein but he expected the sky-high interest rates that would accompany the Reagan budget deficits to produce a crowding out of private investment and an economic turndown rather than the boom that was enabled by the huge inflow of foreign capital, rising dollar and soaring trade deficits.

proliferation of competitive currency devaluations and trade restrictions that cut world commerce in half from 1930 to 1933 and converted national recessions into the Great Depression. The United States continues to provide those global public goods today, running large (and again growing) current account deficits due in part to its open markets and the reserve currency role of the dollar, to permit the rest of the world to enjoy export-led growth despite its own pressing problems of remaining unemployment and wage stagnation—an issue to which I return in the next section of this paper.

Lesson #2: <u>The other key players must cooperate.</u> Unilateral actions by the United States forced the far-reaching currency realignments and eventual systemic adoption of floating exchange rates in the early 1970s. Exchange rates are inherently two-sided, however, and the grudging acquiescence of France, Germany and Japan was essential even then. The willingness, indeed eagerness, of the other key players – the Europeans had already intervened on their own to weaken the dollar in early 1985 and the Plaza intervention was essentially "Leaning With The Wind" (Bergsten 1984) – was central to the success of Plaza-Louvre.

Even the surplus countries with undervalued currencies (especially Germany and Japan in that case), who are usually the most unwilling to cooperate, were ready to participate fully. Their economies were doing reasonably well at the time, which of course helped a great deal. So did the patient and persistent efforts of top Treasury officials, including Messrs. Mulford and Dallara, to build a consensus for action. The increasing doubts of Germany after the Louvre, however, were key to its erosion. The lessons are simply that there can be no leadership without followership but also that effective leadership can beget followership.

The continuing trend toward multipolarity renders such cooperation even more essential today. The inability of the United States over at least a decade, dating from about 2003, to get China to let the RMB appreciate more quickly and more extensively is the current exemplar of that reality. That US failure included an inability to win enough support from its usual allies to produce meaningful policy response through the International Monetary Fund (Blustein 2012). On a different but related issue, the fiasco of US opposition to the creation of the Asian

Infrastructure Investment Bank in early 2015, when it was abandoned by most of its traditional supporters in both Asia and Europe, makes the point even more forcefully.

The advent of China of course means that the traditional reliance on the G-7 (or previously, G-5 or G-10 of high-income democracies) is no longer adequate. Hence the G-20 has become "the predominant steering committee" but it is clearly too large to function effectively as an operational body. **A de facto G-3 (United States, eurozone, China)** or **G-4 (adding Japan) is thus needed to restore any prospect for effective international monetary cooperation**. No Plaza II could be envisaged without China; indeed there were calls for a "New Plaza Agreement" about a decade ago, including by former Secretary Baker (2006), when the major systemic need was an appreciation of most or all of the Asian currencies (Cline 2005) .[5]

Lesson #3: Domestic politics, especially trade policy, drive most major international monetary initiatives. Secretary Baker and Assistant Secretary (as he was then) Mulford, in their memoirs, testify that the threat of Congressional protectionism was the main cause of their reversal from the "benign neglect" exchange rate policy of the first Reagan Administration to the Plaza Agreement (Baker 1996, Mulford 2014 and Funabashi 1989). The sharp deterioration of US price competitiveness generated by the soaring dollar, which brought unprecedented and rapidly growing trade and current account deficits, had already triggered the passage of protectionist bills in the House and threatened the global trading system. Fortunately, the other major countries understood this risk and shared the goal of the Baker Treasury to counter it constructively and effectively through currency action. The use of a multilateral forum, the G-5, added to the policy's anti-protectionist impact in the Congress by demonstrating that other key countries (including oft-targeted Japan) were helping the United States.

Somewhat similar developments marked the other major US foray into aggressive exchange rate action, in 1971. On that occasion, there were external pressures as well from actual and threatened dollar conversions into gold by some foreign central banks. But then too the House had passed protectionist bills, notable the "Mills bill" of 1971 with its import quotas

[5] The IMF sponsored a multilateral consultation on global imbalances in 2006-07 that included those G-4 countries plus Saudi Arabia to represent the oil exporters. There were no noticeable results.

on textiles and shoes and a "Byrnes basket" that could have generated quotas in numerous other sectors. In addition, a Burke-Hartke bill that would limit foreign direct investment by US firms as well as imports was being prepared and attracted widespread attention (Bergsten 1971). In both 1985 and 1971, the Administration of the day was quite rightly motivated by a desire to maintain control of trade and currency policy, rather than letting it shift by default to the Congress, as well as the substantive desire to maintain an open trading system (and keep the United States from being blamed for replicating its huge policy errors of the 1930s).

The current situation has clear echoes of these past episodes. The intense Congressional efforts to legislate substantial changes in US currency policy during the recent debate over Trade Promotion Authority (TPA) and the Trans-Pacific Partnership (TPP) were motivated largely by the rise of the US trade and current account deficits to record levels—double those, as a share of GDP, that prompted the Plaza in 1985—a few years ago. Congressional initiatives usually lag real-world events by several years, and the imbalances and underlying currency misalignments had fortunately declined considerably by the time Congress had to act on the trade issue in the middle of 2015. The Obama Administration did not learn this Plaza-Louvre (or even 1971) lesson very thoroughly, however, and the carryover impact was substantial enough to prompt significant changes in US currency policy that I will describe below.

This lesson is very important because most of the analytical work on exchange-rate sustainability focuses on its international financial dimension, i.e., can a given level of external deficit and debt attract adequate funding to avoid problems or, in extreme cases, "sudden steps" and currency crises? The point here is that there is also a critically important domestic political dimension to currency sustainability, and that the domestic constraint can easily bind before its international counterpoint. The Plaza was largely motivated by just such a pattern.

Lesson #4: <u>The Fed must be with you (as indicated privately by Secretary Baker at the time).</u> The Plaza effort to drive down the dollar largely ended, prematurely as it soon turned out, when the Federal Reserve decided to let market interest rates rise in early 1987 after a renewed depreciation of the dollar, triggered to some extent by another round of jawboning from the Treasury, became too much for Chairman Volcker and his colleagues to accept. It is in fact the definition of a "hard landing" for a currency, which all officials (notably including US officials via Plaza-Louvre) seek to avoid, that interest rates rise while the exchange rates declines.[6] Even more immediately, and with an eye on the upcoming 1988 elections, the Administration of the day did not want to see higher interest rates. The other countries were also ready to call a halt in the dollar's decline so Secretary Baker and his team made the best of their circumstances by working out the Louvre Accord, putting in place the new target zones to at least protect against a renewed rise (as well as disorderly fall) in the dollar.

The lesson is that <u>successful international monetary coordination requires internal as well as external coordination by a US Administration</u> (and especially Treasury). US law authorizes the Secretary of the Treasury to determine the country's exchange rate policy but the Federal Reserve views its independence in conducting monetary policy as providing it with autonomy in the currency area as well (Volcker and Gyohten 1992, 233-35). Volcker in fact concludes that "the net result (between Treasury and the Fed) is a kind of mutual veto that in practice gives the last word to the agency that is most reluctant to intervene", confirming that they must work out an agreed compact if any intervention initiative is to succeed.

Lesson #5: <u>Exchange rates are less difficult to coordinate internationally than macroeconomic or structural policies</u>. The Plaza worked. The Louvre worked to some extent. Tokyo never got off the ground. The lesson is that currency cooperation or even coordination, difficult as it is, is much more likely to succeed than similar efforts centered on the alternative (and more fundamental) macro and structural policy areas.

Numerous other examples support this conclusion. The "Nixon shocks" of 1971 and subsequent Smithsonian Agreement succeeded to a degree on exchange rates, including ultimately changing the exchange rate system, but on little else. The Europeans could create a common currency but, despite having previously agreed on a comprehensive customs union and

[6] Under normal circumstances, an increase in interest rates can be expected to strengthen a country's currency and is in fact the major policy instrument usually used for that purpose. A "hard landing" for an economy of course has much wider implications.

extensive internal liberalization, have been unable to support their monetary union with economic union. The Bonn summit potentially provided a counter-example but its accord on macroeconomic goals and policies was aborted by the second oil shock.

This lesson can be carried further. Exchange-rate cooperation, perhaps embodied in firm rules, can be deployed in an effort to forge internationally compatible and indeed more sustainable domestic economic policies in at least the major countries. This was, after all, the basic concept underlying both the gold standard and the "fixed" exchange rates of the original Bretton Woods system. Thoughtful European leaders believed that creating a common currency would inexorably lead to the additional reforms needed to create an optimal currency area. The Plaza sought to expand its agreement on currency into cooperation on much broader "fundamentals" at Tokyo and, to a degree, Louvre. None of these worked out perfectly, to put it mildly, but cooperation does seem to run more successfully from exchange rates to macro/structural than vice versa.

Lesson #6: <u>Ideas matter</u>. The Plaza was initiated in part to promote an orderly realignment of the major currencies of the day and avert the risk of a "hard landing" for the dollar. That concern, which was deeply shared by Fed Chairman Volcker, had been propagated most vocally by Stephen Marris (1983, 1985) with strong support from the author of this paper. A more immediate push for such action came in the statements by Bergsten, Richard N. Cooper and Paul Krugman at the annual Jackson Hole conference sponsored by the Federal Reserve Bank of Kansas City (1985) less than a month before the Plaza itself.

The target zones adopted at the Louvre were invented by Bergsten and Williamson (1983) and actively discussed with top US and other officials in the years just prior to that intergovernmental agreement. At a briefing session hosted for him by the Institute for International Economics in early 1985, Deputy Treasury Secretary Richard Darman embraced the idea but indicated that they would have to call it something else to avoid endorsing its sponsors—and the term "reference ranges" was developed for that purpose.

Williamson and Miller (1987) subsequently concluded that those "reference ranges" failed to persist because they differed from the proposed target zones in five important ways. The ranges were not publicly announced. The bands were too narrow, limited to plus or minus 2 ½-5 percent instead of 10 percent. They were defined as nominal bilateral exchange rates against the dollar instead of real effective exchange rates (REERs). They had a provisional rather than permanent nature as indicated by their early "rebasing," which reflected the fact that the ranges were not based on any analysis of sustainable equilibrium levels; they were simply set "around current levels" because that is what the negotiators at the Louvre could agree on and deemed least disruptive to the markets. The only obligation when a rate reached the edge of the zone was to consult rather than implement a prespecified policy action.

The lesson is that concepts and policy proposals that are developed outside of official circles can often have important and even decisive policy impact. This can happen even, or perhaps especially, over relatively brief periods of time if the need for new ideas is as acute as when crises arise of the magnitude of 1985-87. But the lesson is also that official adoption of outside policy proposals can misfire if applied incorrectly.

A Need for Plaza II?

Does it matter that the Plaza success has not been replicated for thirty years? Have there been any problems of similar type and magnitude that called for such a policy response? Are there today? Do we have any practical need to absorb the lessons from Plaza-Louvre?

The international imbalances run by the United States and the largest surplus country of the day, China, reached shares of GDP in the mid-2000s that were far higher than those that motivated the Plaza in 1985. The US current account deficit hit about 6 percent in 2006 and remained near 5 percent in 2007-08, compared with its earlier peak of 3.4 percent in 1987. The

Chinese current account surplus peaked at 9.8 percent in 2007-08, far higher than the surpluses of Germany and Japan in 1985. A group of other Asian countries were also running large surpluses at the time that cumulated to a total about equal to that of China. Congressional protectionism was not as great as in the earlier period but the Schumer-Graham proposal for a sizable import surcharge against China attracted considerable support in 2005-07 and the Chinese felt sufficient pressure to let the RMB start appreciating gradually from the middle of 2005.

The Great Recession intervened in 2008, deflecting attention away from the international imbalances (Blustein 2013) and in fact reducing the existing imbalances sharply (though taking the US deficit down only a little below the level at which it had peaked in 1985-87). The issue arose again, in the Congress and though its pressure on the Administration, in 2010-11 when the muted recovery from the recession was underway. The House and Senate separately passed currency bills in 2010 and 2011, respectively; both authorized the use of countervailing duties against undervalued currencies (especially if they were "manipulated"; see below) and the latter added "remedial currency intervention" by the United States itself (also see below). Largely a result, China let the RMB start appreciating again. Congress ratcheted up the pressure even more intensively in 2013-15 when it had to start addressing the forthcoming TPP trade agreement, and more immediately the associated TPA legislation, and thus acquired substantial leverage in dealing with the Administration on the issue.

Notably absent from the Congressional concerns, however, were the factors that drove the protectionist process and thus the Plaza initiative in 1985: large changes in exchange rates driven by market reactions to sharp differences in national growth rates and monetary policies. In the middle 1980s, the US economy boomed as a result of the massive fiscal stimulus provided by the Reagan Administration and as US interest rates remained sky-high to make sure that rapid inflation would not return as a result (the Reagan-Volcker policy mix). In the middle 2010s, the United States is again growing considerably faster than Europe and Japan, and US monetary policy has begun to tighten (the end of QE) while theirs is still easing aggressively. The dollar soared in the 1980s and has strengthened sharply over the past year or so.

However, Congressional anxiety over exchange rates on this occasion has focused solely on "manipulation," defined as direct intervention in the currency markets by foreign monetary authorities, which is viewed as an unfair trade practice as well as a monetary distortion. The G-7 and IMF have made a clear distinction between these two sources of potential currency misalignment, condemning "manipulation" but largely exonerating market-driven movements, despite the protestations of countries on the receiving end (most vocally Brazil) that the effects on their economies are identical. The Congress, and the US political process more broadly, have to date accepted this distinction and thus avoided any significant criticism of the sharp general runup in the dollar of late 2014 and early 2015. This may of course be in part because, in light of the lags between currency movements and subsequent trade effects, the US trade and current account deficits have yet to climb very much or do much additional damage to the US economy. It also presumably reflects the fact that, in light of the absence of alternatives to the dollar at this point in time and the preference of weak economies around the world for a strong dollar to enhance their own competitiveness, the United States has had absolutely no difficulty in financing its imbalances and is thus again running "deficits without tears."

The questions going forward are whether continued large and rising external deficits are sustainable domestically for both the US economy and US politics, where Congress will presumably have to vote in the next couple of years on both the TPP (probably in 2016 or 2017) and subsequently the TTIP (probably in 2018 or beyond). In economic terms, the United States is approaching full employment as conventionally measured and the requirements of the TPA/fast track legislation sharply limit the ability of Congress to tie its approval of the pending trade deals to currency questions. However, the expansion remains moderate. Wage growth is very modest. Income distribution continues to worsen. The employment ratio remains disturbingly low. Hence the US economic situation is far from satisfactory and an ongoing external imbalance rising beyond 4 percent of GDP (Cline 2015), at the exchange rates of the middle of 2015, raises questions that are only like to intensify (including as the political campaigns heat up over the next year).

The dollar could of course rise significantly further if the United States maintains, or further increases, its growth advantage over Europe and Japan. It could do so as Fed tightening actually proceeds, especially if it turns out to be quicker and larger than anticipated by markets. It could especially do so if the currencies of key emerging markets, including China, continue to weaken as Fed tightening and their own economic problems promote more capital outflows.

Is the dollar significantly overvalued now as it was in 1985? In his latest estimates of "fundamental equilibrium exchange rates," using the methodology developed at the Peterson Institute for International Economics for a number of years, my colleague William Cline concludes (Cline 2015) that the dollar is only modestly overvalued (about 8 percent) and that the euro and yen are only modestly undervalued (about 3 percent each). He posits no misalignment in the exchange rate of the RMB.

But Cline's (and the Institute's traditional) approach seeks only to keep countries' current account positions within 3 percent, plus or minus, of their GDPs. Hence the US deficit (4.3 percent), eurozone surplus (3.8 percent) and Japanese surplus (3.4 percent) projected for 2020 call only for minor corrections that would presumably not require an international initiative like the Plaza. China's even smaller projected surplus (2.5 percent) would require no change at all.

The rationale for this analytical approach is that only deficits larger than 3 percent of GDP are likely to produce increases in a country's foreign debt position that could become unsustainable, from an international financial standpoint, and that symmetry calls for permitting surpluses of similar magnitudes. In the real world, however, the projected imbalances are very large in absolute terms: almost $1 trillion for the United States, over $500 billion for the eurozone and about $400 billion for China. Hence their continued presence can make a great deal of difference to the world economy.

The US goal at the Plaza in 1985 was to totally eliminate the US current account deficit, as in fact occurred over the next five years. The US goal at the Smithsonian in 1971 was to eliminate the external imbalance (defined differently in those days) if not to convert it into a surplus. There are solid reasons to believe that the United States, as a high-income country, should again become a net capital exporter (and thus run current account surpluses) and that China as a low-income developing country should again become a net capital importer (and thus run current account deficits). The IMF staff, as part of its 2015 External Sector Report (IMF 2015), has suggested current account "norms" of a 1.6 percent of GDP deficit for the United States, a zero balance for China and Japan, and a 2.25 percent of GDP surplus for the euro area.

Using these IMF norms, let alone setting current account targets at zero for the four main economies, produces a dramatically different picture of whether current exchange rates, let alone future rates that moved further away from equilibrium levels, reflect underlying economic fundamentals. The attached tables 1-4 set current account targets on both bases and use Cline's model and parameters to calculate the implied misalignments for the four major currencies (+ means overvaluation and – means undervaluation):[7]

	Trade-weighted average		Bilateral rates against dollar (equilibrium level)	
	Zero Balances	**IMF Norms**	**Zero Balances**	**IMF Norms**
United States	+26.5	+17.6	--	--
Eurozone	-15.0	- 4.8	-40.9 (1.52)	-21.0 (1.31)
China	- 9.9	- 9.2	-37.1 (4.52)	-27.8 (4.85)
Japan	-22.6	-21.9	-50.2 (80)	-41.1 (85)

In essence, today's misalignments—calculated on the same basis that underpinned the two negotiated currency corrections of the earlier postwar period—are in the same ballpark as those adjustments.[8] The dollar came down by about 50 percent against both the DM and yen after the Plaza; the euro and yen are now undervalued against the dollar by 20-40 per cent and 40-50 per cent, respectively. The dollar's trade-weighted depreciation was about 30 percent, compared with an overvaluation of 18-25 per cent today.

In terms of the magnitude of today's imbalances and misalignments, there is a strong case for a Plaza II. The tables show that the present situation is very similar to what prevailed before

[7] When the dollar is overvalued against virtually all other currencies, as is now the case, they all have to move up a great deal against the dollar to restore equilibrium. Because they are all moving in the same direction together, the rise in their trade-weighted averages is much less. The latter is what counts for their aggregate competitiveness and global trade balances so their adjustment requirements are much less than implied by their posited large moves against the dollar.

[8] Using a completely different methodology, Green, Papell and Prodan 2015, 18-19, agree.

the Plaza. The dollar is substantially overvalued not only in aggregate magnitude but vis-à-vis every other significant currency. The main participants would need to be the same countries (United States, Germany through the eurozone, Japan) as at the Plaza itself. China and several other Asian countries, notably Korea and Taiwan, are substantially undervalued as well (especially against the dollar) and should be included to avoid their free-riding on the agreement.[9]

The policy issue is whether a Plaza-type agreement to correct these misalignments is now called for. There are two major arguments against it. The more compelling is the relatively good economic performance of the United States, which as indicated is a major source of the dollar's strength (and justifies its location at the strong end of any implicit target zone). Despite the large and gradually (so far) growing external deficit, and despite the problems recited above, the US economy is doing much better than Europe and Japan (which is of course a major cause of the rising trade imbalance). Even China, with its recent slowdown and stock market fall, is looking a bit shaky. Hence it would be difficult to justify a Plaza-type agreement at this time to raise the value of the euro, yen and RMB to anything like the equilibrium levels suggested above.

The second argument against early action is the abatement, at least for now, of protectionist pressure in the Congress. The TPA votes were very close in both houses and fairly intrusive currency amendments lost by even smaller margins in the Senate Finance Committee and on the Senate floor (see next section). But the Administration largely won that battle and no appetite to re-open the issue has appeared yet (and is unlikely to do so, at least directly on the trade bills themselves, when the TPP and TTIP legislation come up for approval because of the up-or-down and time-limited nature of those votes under TPA/fast track procedures).

It is thus likely that Plaza II ideas will come onto the policy agenda only under three conditions: if the US economy turns down, in part due to rising trade deficits; if the dollar takes

[9] After the Plaza, Korea and Taiwan retained their dollar pegs and thus depreciated sharply with the dollar on a trade-weighted basis. They began running enormous surpluses and in fact soon became the targets of global currency policy (Balassa and Williamson 1987) that led to sizable "catch up" appreciations of their own exchange rates.

another sharp upward climb, producing widespread complaints from American firms and workers about the impact on their competitiveness; and/or if the Congress suddenly begins to worry again about growing trade deficits caused by currency overvaluation, whatever its causes. How much further dollar appreciation would be needed to trigger these reactions? Cline's model indicates that every 10 percent rise of the dollar will add about $350 billion to the trade deficit and reduce the level of US economic activity by about 2 percent (with a corresponding loss of 1 ½-2 million jobs, although easier monetary policy could in principle produce a full offset unless the zero lower bound for interest rates has already been reached). A dollar rise of 20 percent from mid-2015 levels – which would imply a euro at about $0.90 (as in 2000), a yen at about 145-150:1 (as in 1998) and an RMB at around 7.5:1 (as before 2007) – would take the current account imbalance close to $2 trillion per year by 2020, with output and job losses double those just cited, which would presumably attract considerable attention and spur calls for action in some quarters.

When, if ever, might such further dollar appreciation occur? It will probably depend on four key variables: the extent and speed of Fed tightening, comparisons between the pace of the US economy and the pick-up (if any) in Europe and Japan, and the success of China's reforms in sustaining rapid growth (without which they will both lose further market confidence and be tempted to revert to export expansion via renewed manipulation). One can imagine combinations of these variables that would push the dollar significantly up or significantly down. We do know that it could easily move a great deal in a short period of time, as it did when rising about 15 percent on a real trade-weighted average basis between August 2014 and August 2015, and that policy should be ready to respond if it does. We also know that the two major dollar appreciations of the postwar period, from 1978 to 1985 and 1995 to 2002, each took seven years. The current appreciation has proceeded for only four years so there could still be a good deal more in store.

We also know, however, that the changes most likely to produce a sharp new rise in the dollar and thus a case for a Plaza II – a sharp tightening of Fed policy as the United States becomes an island of growth in a weak world economy, continued weak growth in Europe and Japan, continued lags in reform in China – would simultaneously reinforce the case against such an initiative as indicated just above. Cooperation from the other key countries to weaken the dollar, and thus strengthen their own currencies and further impede their economic outlook, would be highly unlikely in such circumstances. Any US currency initiative in such a setting, perhaps driven by renewed Congressional pressure, would almost certainly have to be unilateral and could cause major international disruption.

Does the United States Have a New Currency Policy?

As noted above, currency was a central topic in the trade policy debate in both the Senate and House in May-June 2015. That debate was foreshadowed by letters conveyed by unusual bipartisan majorities of both houses to the President and his top officials in 2013, calling for "enforceable disciplines" on currency manipulation in the TransPacific Partnership that was currently under negotiation "and all future US free trade agreements."

The currency debate itself encompassed five major features. The most unique was its direct linkage of the currency issue to trade policy, which was largely unprecedented (Bergsten 2014). Congress found the lever to address currency, which it had been seeking for some time, when the Administration was forced to approach it for negotiating authority to pursue the TPP and TTIP. There was also compelling logic in the linkage, despite the Administration's continuous denial (and delayed recognition) of it: currency manipulation has distorted trade flows for the past decade far more than any tariff or conventional tool of trade policy (Bergsten and Gagnon 2012). Paul Volcker has famously opined that trade flows respond more to ten minutes of movement in exchange rates than to ten years of trade negotiations.

Second, it focused exclusively on currency manipulation as an "unfair trade practice" as well as a monetary distortion. This outcome stemmed directly from the linkage to trade policy. No attention was paid to the sharp market-driven rise in the dollar, in response to differential growth rates and monetary policies, that was occurring just as the Congressional debate was getting underway in early 2015. This was presumably in part because the inevitably sharp increase in the US current account deficit that would ensue had not yet taken place due to the usual time lags of two to three years between currency change and trade outcomes, and the limited complaints from adversely affected US firms and even labor unions. It was probably also because the Republican majorities in both houses, to the extent they focus on these issues at all, believe strongly in flexible exchange rates and respect the outcomes generated in them by market forces.

The Administration implicitly endorsed this sharp distinction between "manipulation," defined as direct intervention in the foreign exchange markets to limit a currency's appreciation, and market-driven movements in exchange rates. This was because it feared that any new constraints on "manipulation" might be used to attack its own macroeconomic politics, especially QE by the Federal Reserve, which some counties view as affecting their exchange rates just as much as direct intervention by, say, China. As noted above, both the IMF and G-7 have drawn a clear distinction between the two types of policy action but the impact on recipient countries can indeed appear very similar so some might very well level such charges against the United States (and other countries deploying QE). Hence the Administration reinforced the Congressional focus on intervention as it emphasized this distinction.

A third interesting feature was the country focus of the debate. China had of course been the major target of Congressional (and Administration) concerns on the currency front over the preceding decade, and Senator Schumer and some others continued to emphasize its heavy intervention. However, the RMB had risen substantially over the preceding five years, especially on a trade-weighted basis as it rode its dollar peg up against most other currencies, and the Chinese current account surplus had dropped from almost 10 percent of GDP at its peak in 2007-08 to less than 3 percent. Chinese intervention in 2015 shifted from primarily buying dollars to largely selling dollars to keep the RMB from departing its fixed exchange rate on the downside. This enabled the Administration to claim with some validity that its policy of patient diplomacy had succeeded. The change in circumstances, including importantly the decline in the US deficit as well as the Chinese surplus, also probably meant that no countries (and almost certainly no TPP countries) would be indicted for manipulation any time soon. The anti-Chinese invective that had been common in earlier years declined and Congress quite sensibly came to view the legislation as a potential vehicle to provide deterrence against future bad behavior on the currency front rather than a trigger for immediate retaliation.

In addition, the chief political driver of the currency issue was the automobile industry, especially Ford Motor. Their competition-driven emphasis was on Japan and, to a lesser extent, Korea. Japan had in fact not been guilty of overt manipulation for over a decade, as even the auto companies acknowledged. The incoming Abe government in late 2012 had vigorously talked down the yen by about 30 percent, however, with subsequent "validation" by the aggressive QE monetary policy adopted by the Bank of Japan (but also with stern rebukes by the Treasury and a strong G-7 statement in February 2013 that committed Japan, along with the other members, to avoid targeting exchange rates and all currency intervention without prior consultation with the group).[10] Korea has been singled out by the Treasury Department in its most recent semi-annual currency reports as having been the major intervener over the last year or so (though Treasury did not label it a "manipulator" any more than it had China for the prior decade).

Fourth, the issue remained bipartisan to an important extent. Democrats provided most of the votes for strong action on currency in the Senate (there were no recorded votes in the House) but Republicans took the lead on key aspects of the issue. Senator Rob Portman of Ohio, a former USTR under Bush 43, led the effort in both the Finance Committee and on the floor to require that "enforceable disciplines" against manipulation be negotiated in the TPP (and lost by very small margins in both). Senator Lindsey Graham of South Carolina continued to co-sponsor with Senator Schumer the amendment that would authorize the application of countervailing duties against imports subsidized by currency manipulation (which passed the Senate by a wide majority but is likely to be dropped in the conference committee on separate legislation that was still pending when this was written due to implacable opposition by the House leadership).

Fifth, the Administration adamantly opposed any new legislation that would be binding on either it or its trading partners in the TPP itself. This was a risky strategy because it appeared at several points that such stonewalling could block passage of the entire TPA bill and thereby

[10] Frankel (2015) calls this G-7 statement an "anti-Plaza agreement" because it "rules out currency intervention." However, the statement clearly permits intervention, including joint intervention, that is agreed among the group so it actually authorizes a repeat of the (agreed) Plaza strategy.

perhaps kill the TPP negotiations. For its part, the Administration claimed that its consultations with TPP partners indicated that US insistence on binding currency rules would kill the negotiations. (It is impossible to validate that claim because the Administration never sought agreement on binding rules; to the contrary, the trading partners knew that the Administration itself opposed such rules so they could have simply been telling it what it wanted to hear.) It also feared, as noted above, that other countries might attack the macroeconomic policies of the United States, especially QE by the Fed, as constituting "currency manipulation." In the end, the Administration conceded enough ground on nonbinding alternatives to assuage enough advocates of new currency action to support the overall legislation and permit the trade agenda to move ahead.

So where does the Congressional debate leave US currency policy? There were four major components of that debate (and a fifth that was considered informally). First, the Congress inserted two "principal negotiating objectives" into the TPA legislation itself: an insistence that TPP members "avoid manipulating exchange rates to prevent effective balance of payments adjustment or to gain an unfair competitive advantage" and "to establish accountability with respect to unfair currency practices…by other parties to a trade agreement." Both provisos authorize the Administration to adopt any of a series of techniques to achieve their purposes, including "enforceable rules," but neither needs to be achieved through the TPP itself and the law also authorizes such softer options as "cooperative mechanisms, reporting, monitoring, transparency or other means."

The Administration's primary response to date has been to propose to its TPP partners the creation of a new committee of monetary authorities (finance ministries and/or central banks) of the twelve countries, outside the TPP itself and with no legal obligations involved, to consult on macroeconomic including currency issues with the goal of avoiding manipulation. A minimum initial objective might be to seek agreement by the other countries to conform to IMF guidelines for disclosing basic data on intervention and other relevant variables, which some of them (along with China and Korea) still do not do.

The other countries acknowledge the US need for some such initiative, to respond to the new Congressional mandate and broader currency pressures, and are pleased that the concept of "enforceable disciplines" in the TPP itself has been dropped. But they are not enthusiastic about the watered-down version either, which an aggressive US Administration could of course use to put considerable pressure on them, and Japan has publicly expressed doubt about it. The Treasury originally aimed to hold an initial session of the new group around the IMF Annual Meeting in Peru in early October, when it looked like the TPP itself would be concluded in that same time frame, but that timetable may now be delayed (along with the TPP itself) and the outcome is unclear as of this writing in late September.

The second Congressional initiative was the Portman-Stabenow amendment to greatly strengthen the "negotiating objectives" by requiring their implementation through "enforceable disciplines" in the TPP itself. This approach, maintaining the insistence of the Congressional letters of 2013, elicited the strongest opposition from the Administration and indeed a pledge by Secretary of Treasury Jacob Lew to recommend that the President veto any TPA bill that included it (though never a veto threat from the President himself) on the grounds that it would torpedo the entire TPP negotiation. In the event, the amendment lost by a narrow margin in both the Senate Finance Committee (18-14) and on the floor (51-48).

The two other alternatives considered by the Congress were, through a parliamentary maneuver to protect the TPA bill from further risk, included in a parallel Customs and Enforcement Bill that has been adopted in different forms by the two houses but not yet conferenced and submitted for final passage at the time of this writing. The stiffer of the two is the Schumer-Graham amendment, authorizing countervailing duties against exports subsidized by currency manipulators. It passed the Senate by a large majority (after being passed by both House and Senate in separate bills in 2010 and 2011, respectively) but is strongly opposed by the Republican leadership in the House so is expected to drop out when the conference committee meets to reconcile the two versions of the full bill.

The less aggressive alternative, but the one most likely to have a lasting impact on US currency policy, is the Bennet-Hatch-Carper amendment worked out between the Administration and the key committees, particularly Senate Finance (where most of the detailed discussion took place). It has three parts: an elaboration of the criteria that could cause a country to be confronted for currency manipulation, a new procedure to guide such confrontation culminating in "enhanced engagement", and a series of remedies to be considered once such engagement is undertaken.

The amendment requires Treasury to include in its semiannual reports an "enhanced analysis" of any major trading partner of the United States that has "a significant bilateral trade surplus with the United States… a material current account surplus and… engaged in persistent one-sided intervention in the foreign exchange market." It goes on to require that "the President, through the Secretary (of the Treasury) **shall** (emphasis added) convene enhanced bilateral engagement with each country for which an enhanced analysis … is included in the report…" It is difficult to see how Treasury could have evaded these criteria with respect to China and a number of others over the past decade, although the bill also includes a clause authorizing the Secretary to waive the requirements for economic or national security reasons.

If enacted with its current language, the bill would strengthen the Administration's negotiating position with manipulators by setting up the process of "enhanced engagement" and the threat of the new remedies.[11] A potentially valuable negotiating tool is the amendment's authorizing the Administration to "take into account" whether a country "has failed to adopt appropriate policies to correct (its) undervaluation and surpluses" in determining whether to pursue a bilateral or regional trade agreement with that country. This proviso, which obviously acknowledges the linkage between currency and trade, might prove to be a powerful deterrent to Korea, or even China, if they decide to seek membership in a second phase of TPP.[12]

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[11] The most likely immediate targets would be Korea and Taiwan, the same two that were labelled as "manipulators" by Treasury's first report under the existing law in 1988.

[12] A fifth, much more informal and limited, policy consideration during the Congressional debate was the author's proposal (first presented in Bergsten 2003) for authorization of "countervailing currency intervention" through which the United States would buy the currencies of manipulators in amounts equal to their purchases of dollars to neutralize and thus hopefully deter their manipulation. Such an authorization was passed by the Senate as "remedial currency intervention" in 2011 but never formally addressed by the House. The idea was raised by key members of the Senate Finance and House Ways and Means Committees with top Administration officials during the latest debate but was strongly opposed by them and not pursued further. It would be useful to add this remedy to the list authorized for deployment against countries subjected to "enhanced engagement."

It will be a while before we know what impact, if any, the recent Congressional debate will have on US currency policy, even assuming that the Customs and Enforcement bill proceeds into law as now expected. It could result in new procedures both domestically (especially at Treasury) and internationally (via the proposed committee of TPP monetary authorities) but little or no new substance. On the other hand, it could lead to a tougher stance against recent (Korea?) and potential future (China or Japan again?) manipulators that would help deter such practices in the future. More subtly, the Congressional debate itself—and especially the close calls regarding the imposition of "enforceable disciplines" in the TPP and the authorization of countervailing duties against all manipulators—may deter future manipulation. The extent and amount of manipulation has already declined substantially in recent years, and this is probably at least partially the result of the stepped-up concern over the issue voiced in the Congress and more broadly in the United States.

These recent developments regarding currency policy relate importantly to prospects for a future Plaza II or similar action by the United States, which the "lessons from the Plaza" suggest would have to lead any such initiative. Such initiatives do not require legislative authorization but, as noted throughout this paper, Congressional pressure—especially related to trade policy—has been a central feature of past US efforts of this type, notably including the Plaza itself. On this occasion, the Congress stopped short of forcing the Administration to take new steps but its widespread sentiment for a more aggressive policy was clear, and is likely to have continuing and even growing impact as the US trade and current account deficits increase as a result of the sizeable recent (and potential future) runup in the exchange rate of the dollar. A more delayed reaction than in 1971 and 1985 to a similar dynamic is thus quite possible.

On the other hand, the Congressional (and more general) focus on manipulation by individual surplus countries, rather than generalized currency woes in response to macroeconomic conditions and (especially monetary) policies, could reduce the likelihood of wide-ranging actions like the Plaza. It is of course possible that intervention by surplus countries could become sufficiently widespread to warrant such a multilateral approach, as in fact advocated by some analysts a few years ago (Cline 2005, Bergsten and Gagnon 2012). But the thrust of US currency policy since the Plaza-Louvre period has been country-specific and ad hoc, and that pattern is likely to prevail unless and until the conditions hypothesized in the previous section of this paper were again to prevail.

So the answer to the question posed by the title of this paper is: not yet, though the underlying imbalances are about as great as those that triggered the Plaza itself. In the meanwhile, it is extremely useful to recall the success and lessons of the Plaza Agreement of thirty years ago. Secretary Baker and his Institute are to be greatly commended for sponsoring this event to do so, and thus to remind current and future policymakers that a model exists for responding to problems of a type that could well recur. It would probably take another Secretary Baker and an equally talented team to engineer such a replication and future administrations should take note in assembling their lineups!

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Table 1
Target Current Account (CA) Positions for 2020
Using IMF Staff Norms for China, Japan, Euro Area, and United States

Country	IMF Projection of 2015 CA (percent of GDP)	IMF 2020 GDP forecast (billions of US dollars)	IMF 2020 CA forecast (percent of GDP)	Adjusted 2020 CA (percent of GDP)	Target CA (percent of GDP)
Pacific					
Australia	-4.0	1,491	-3.4	-2.6	-2.6
New Zealand	-4.8	240	-4.6	-4.9	-3.0
Asia					
China	3.2	16,157	3.0	2.5	0.0
Hong Kong	2.0	438	3.1	1.6	1.6
India	-1.3	3,640	-2.5	-2.7	-2.7
Indonesia	-3.0	1,307	-2.6	-2.3	-2.3
Japan	1.9	4,933	2.3	3.4	0.0
Korea	7.1	2,012	3.6	4.8	3.0
Malaysia	2.1	538	1.4	4.9	3.0
Philippines	5.5	510	3.0	1.5	1.5
Singapore	20.7	390	14.5	15.5	3.0
Taiwan	12.4	776	9.9	10.8	3.0
Thailand	4.4	504	0.7	0.2	0.2
Middle East/Africa					
Israel	4.5	315	3.8	4.5	3.0
Saudi Arabia	-1.0	902	5.4	5.9	5.9
South Africa	-4.6	409	-4.2	-3.5	-3.0
Europe					
Czech Republic	1.6	203	-0.7	0.2	0.2
Euro area	3.3	14,160	2.5	3.8	2.3
Hungary	4.8	165	1.2	-0.4	-0.4
Norway	7.6	502	4.8	5.2	5.2
Poland	-1.8	673	-3.5	-3.1	-3.0
Russia	5.4	2,081	4.3	1.5	1.5
Sweden	6.3	677	5.6	6.9	3.0
Switzerland	5.8	769	5.3	3.7	3.0
Turkey	-4.2	1,012	-5.0	-5.1	-3.0
United Kingdom	-4.8	3,731	-3.3	-2.3	-2.3
Western Hemisphere					
Argentina	-1.7	631	-1.5	-2.6	-2.6
Brazil	-3.7	2,354	-3.2	-1.9	-1.9
Canada	-2.6	2,044	-1.8	1.0	1.0
Chile	-1.2	325	-2.4	-1.6	-1.6
Colombia	-5.8	483	-3.6	-2.2	-2.2
Mexico	-2.2	1,653	-2.3	1.0	1.0
United States	-2.3	22,489	-2.6	-4.3	-1.6
Venezuela	-4.7	274	1.4	2.3	2.3

Sources: Cline (2015) and IMF (2015) for current account targets for China, Japan, Euro area and United States

Table 2 FEERs Estimates Based on IMF Staff Norms for Current Accounts of China, Japan, Euro Area and United States							
	Changes in Current Account as Percentage of GDP		**Change in REER** (percent)		**Dollar Exchange Rate**		**FEER-**
Country	Target Change	Change in Simulation	Target Change	Change in Simulation	Actual April 2015	Percentage Change	**consistent dollar rate**
Pacific							
Australia*	0.0	0.2	0.0	-1.2	0.77	22.1	0.94
New Zealand*	1.9	2.1	-7.2	-8.2	0.76	12.3	0.85
Asia							
China	-2.5	-2.2	10.3	9.2	6.20	27.8	4.85
Hong Kong	0.0	0.3	0.0	-0.6	7.75	24.5	6.23
India	0.0	0.2	0.0	-1.0	62.7	15.3	54.4
Indonesia	0.0	0.2	0.0	-1.1	12946	24.1	10428
Japan	-3.4	-3.3	23.0	21.9	120	41.1	85
Korea	-1.8	-1.4	4.2	3.3	1086	23.8	878
Malaysia	-1.9	-1.4	3.8	2.7	3.63	27.3	2.86
Philippines	0.0	0.2	0.0	-1.0	44.4	23.3	36.0
Singapore	-12.5	-11.9	25.1	23.9	1.35	44.9	0.93
Taiwan	-7.8	-7.4	17.6	16.7	31.0	39.6	22.2
Thailand	0.0	0.5	0.0	-1.1	32.5	21.4	26.8
Middle East/Africa							
Israel	-1.5	-1.3	5.0	4.3	3.93	19.1	3.30
Saudi Arabia	0.0	0.3	0.0	-0.8	3.75	19.8	3.13
South Africa	0.5	0.7	-2.2	-2.9	11.99	15.0	10.43
Europe							
Czech Republic	0.0	0.3	0.0	-0.6	25.4	19.0	21.3
Euro area*	-1.5	-1.2	6.3	4.8	1.08	21.0	1.31
Hungary	0.0	0.3	0.0	-0.6	277	18.1	235
Norway	0.0	0.2	0.0	-0.7	7.88	17.8	6.69
Poland	0.1	0.4	-0.3	-1.1	3.72	17.8	3.16
Russia	0.0	0.2	0.0	-0.6	53.0	15.4	45.9
Sweden	-3.9	-3.5	10.2	9.3	8.63	26.8	6.81
Switzerland	-0.7	-0.5	1.7	1.1	0.96	20.2	0.80
Turkey	2.1	2.3	-8.7	-9.4	2.65	6.3	2.50
United Kingdom*	0.0	0.2	0.0	-0.8	1.50	16.8	1.75
Western Hemisphere							
Argentina	0.0	0.2	0.0	-1.1	8.86	14.0	7.77
Brazil	0.0	0.2	0.0	-1.3	3.05	15.4	2.64
Canada	0.0	0.1	0.0	-0.4	1.23	7.3	1.15
Chile	0.0	0.3	0.0	-1.0	614	16.7	526
Colombia	0.0	0.1	0.0	-0.8	2493	10.0	2266
Mexico	0.0	0.1	0.0	-0.4	15.2	7.4	14.2
United States	2.7	2.9	-16.4	-17.6	1.00	0.0	1.00
Venezuela	0.0	0.2	0.0	-0.6	6.29	9.5	5.75

Sources: Cline (2015) and Table 1

Table 3 Target Current Account Positions for 2020 Using Zero Targets for China, Japan, Euro Area and United States					
	IMF Projection of 2015 CA	**IMF 2020 GDP forecast**	**IMF 2020 CA forecast**	**Adjusted 2020 CA**	**Target CA**
Country	(percent of GDP)	(billions of US dollars)	(percent of GDP)	(percent of GDP)	(percent of GDP)
Pacific					
Australia	-4.0	1,491	-3.4	-2.6	-2.6
New Zealand	-4.8	240	-4.6	-4.9	-3.0
Asia					
China	3.2	16,157	3.0	2.5	0.0
Hong Kong	2.0	438	3.1	1.6	1.6
India	-1.3	3,640	-2.5	-2.7	-2.7
Indonesia	-3.0	1,307	-2.6	-2.3	-2.3
Japan	1.9	4,933	2.3	3.4	0.0
Korea	7.1	2,012	3.6	4.8	3.0
Malaysia	2.1	538	1.4	4.9	3.0
Philippines	5.5	510	3.0	1.5	1.5
Singapore	20.7	390	14.5	15.5	3.0
Taiwan	12.4	776	9.9	10.8	3.0
Thailand	4.4	504	0.7	0.2	0.2
Middle East/Africa					
Israel	4.5	315	3.8	4.5	3.0
Saudi Arabia	-1.0	902	5.4	5.9	5.9
South Africa	-4.6	409	-4.2	-3.5	-3.0
Europe					
Czech Republic	1.6	203	-0.7	0.2	0.2
Euro area	3.3	14,160	2.5	3.8	0.0
Hungary	4.8	165	1.2	-0.4	-0.4
Norway	7.6	502	4.8	5.2	5.2
Poland	-1.8	673	-3.5	-3.1	-3.0
Russia	5.4	2,081	4.3	1.5	1.5
Sweden	6.3	677	5.6	6.9	3.0
Switzerland	5.8	769	5.3	3.7	3.0
Turkey	-4.2	1,012	-5.0	-5.1	-3.0
United Kingdom	-4.8	3,731	-3.3	-2.3	-2.3
Western Hemisphere					
Argentina	-1.7	631	-1.5	-2.6	-2.6
Brazil	-3.7	2,354	-3.2	-1.9	-1.9
Canada	-2.6	2,044	-1.8	1.0	1.0
Chile	-1.2	325	-2.4	-1.6	-1.6
Colombia	-5.8	483	-3.6	-2.2	-2.2
Mexico	-2.2	1,653	-2.3	1.0	1.0
United States	-2.3	22,489	-2.6	-4.3	0.0
Venezuela	-4.7	274	1.4	2.3	2.3

Sources: Cline (2015) and author's current account targets for China, Japan, Euro area and United States

Table 4
FEERs Estimates
Based on Zero Targets for Current Accounts of China, Japan, Euro Area and United States

	Changes in Current Account as Percentage of GDP		**Change in REER** (percent)		**Dollar Exchange Rate**		**FEER-**
Country	Target Change	Change in Simulation	Target Change	Change in Simulation	Actual April 2015	Percentage Change	**consistent dollar rate**
Pacific							
Australia*	0.0	0.1	0.0	-0.4	0.77	32.0	1.02
New Zealand*	1.9	1.9	-7.2	-7.5	0.76	21.8	0.92
Asia							
China	-2.5	-2.4	10.3	9.9	6.20	37.1	4.52
Hong Kong	0.0	0.1	0.0	-0.2	7.75	34.2	5.78
India	0.0	0.1	0.0	-0.4	62.7	24.3	50.5
Indonesia	0.0	0.1	0.0	-0.4	12946	33.9	9671
Japan	-3.4	-3.3	23.0	22.6	120	50.2	80
Korea	-1.8	-1.6	4.2	3.8	1086	32.7	818
Malaysia	-1.9	-1.7	3.8	3.4	3.63	36.9	2.65
Philippines	0.0	0.1	0.0	-0.4	44.4	32.8	33.5
Singapore	-12.5	-12.3	25.1	24.6	1.35	54.7	0.87
Taiwan	-7.8	-7.7	17.6	17.3	31.0	48.8	20.9
Thailand	0.0	0.2	0.0	-0.4	32.5	30.8	24.9
Middle East/Africa							
Israel	-1.5	-1.5	5.0	4.7	3.93	29.3	3.04
Saudi Arabia	0.0	0.1	0.0	-0.3	3.75	29.2	2.90
South Africa	0.5	0.6	-2.2	-2.4	11.99	25.3	9.57
Europe							
Czech Republic	0.0	0.1	0.0	-0.2	25.4	35.9	18.7
Euro area*	-3.8	-3.6	15.5	15.0	1.08	40.9	1.52
Hungary	0.0	0.1	0.0	-0.2	277	33.6	207
Norway	0.0	0.1	0.0	-0.3	7.88	32.1	5.97
Poland	0.1	0.2	-0.3	-0.6	3.72	34.0	2.78
Russia	0.0	0.1	0.0	-0.2	53.0	26.8	41.7
Sweden	-3.9	-3.7	10.2	9.8	8.63	41.4	6.10
Switzerland	-0.7	-0.7	1.7	1.5	0.96	35.4	0.71
Turkey	2.1	2.1	-8.7	-9.0	2.65	17.9	2.25
United Kingdom*	0.0	0.1	0.0	-0.3	1.50	30.6	1.95
Western Hemisphere							
Argentina	0.0	0.1	0.0	-0.4	8.86	23.9	7.15
Brazil	0.0	0.1	0.0	-0.5	3.05	25.4	2.43
Canada	0.0	0.0	0.0	-0.2	1.23	11.6	1.11
Chile	0.0	0.1	0.0	-0.4	614	25.9	488
Colombia	0.0	0.1	0.0	-0.3	2493	16.8	2134
Mexico	0.0	0.0	0.0	-0.2	15.2	11.5	13.6
United States	4.3	4.4	-26.1	-26.5	1.00	0.0	1.00
Venezuela	0.0	0.1	0.0	-0.2	6.29	15.0	5.47

Sources: Cline (2015) and Table 3