

Managing the Dollar: From the Plaza to the Louvre

By Yoichi Funabashi

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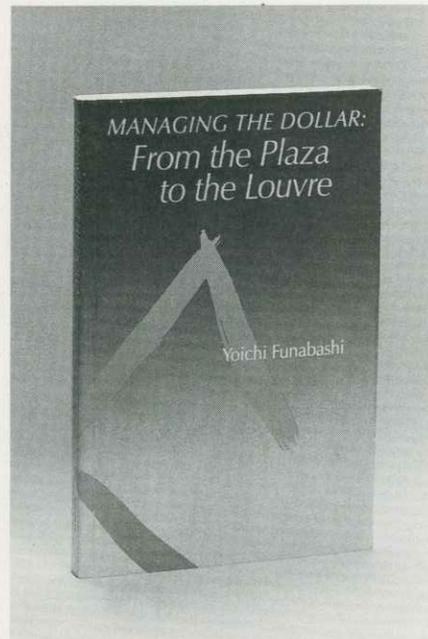
297 pages; \$19.95

In the summer of 1988, the U.S. Senate Banking Committee sent Federal Reserve Board Chairman Alan Greenspan a list of questions including one that read in part, "In a recent book entitled *Managing the Dollar* by Yoichi Funabashi, the author discusses an episode where the exchange rate between the yen and the dollar.... Do you know of an agreement between the Japanese and the Treasury in 1988 that is similar to the one Mr. Funabashi described in his book?" This was a key question (Fed Chairman Greenspan's answer was hedged and generally left as many questions unanswered as it answered) and the fact that Funabashi was referred to in the question is just one indication of how realistic, sensational and persuasive *Managing the Dollar* is.

As indicated in the subtitle—*From the Plaza to the Louvre*—the book is a vivid portrayal of the efforts of the G-5 (finance ministers and central bankers from the United States, Japan, West Germany, France and Britain) to manage the dollar's depreciation, a tale that Funabashi takes from the September 1985 Plaza Agreement through the February 1987 Louvre Accord.

This book could not have been written by just anybody. To start with, the international policy coordination begun with the Plaza Agreement is even now continuing, and many of the policymakers are reluctant to speak too openly. Secondly, policy coordination is influenced not only by politics, economics and market thinking but also by the complex interaction of domestic and foreign interests, making this a very difficult and complex topic indeed.

Yet Funabashi has overcome these difficulties to interview all of the G-5 participants, including then-treasury secretary James Baker, Fed Chairman Paul Volcker and all the others, and to analyze their



comments in the context of the prevailing domestic and international situations. A highly respected journalist who has been the *Asahi Shimbun's* correspondent in Washington, D.C. and was a visiting fellow at the Institute for International Economics, Funabashi was ideally suited to the job.

The author draws on the full range of his expertise and experience throughout the book. There are two points that I found particularly noteworthy.

First is his eloquent portrayal of how difficult it was for the authorities to promote international policy coordination given the need for coordination among the legislatures, treasury authorities, central banks and other domestic interests. What were these interests for the different countries?

In the United States, the struggle focused on Treasury Secretary Baker's need to consider the Democratic-dominated Congress, both for policy implementation reasons and in light of the midterm elections, and his ability to persuade his predecessor in the administration, the noninterventionist Donald Regan, of the wisdom of policy coordination.

Japan was at first very reluctant to respond to American and European demands that it stimulate domestic demand, but eventually then-prime minister Yasuhiro Nakasone took the initiative in putting together a ¥6 trillion package of emergency economic measures.

For West Germany, the Louvre Accord called for monetary easing and fiscal

stimulation to stabilize the dollar. However, because the constitutionally independent Bundesbank's first priority was to deter inflation, Germany was very cautious about monetary easing and the coalition government found it impossible to effect tax cuts and other flexible fiscal policies.

All of these domestic concerns, their political and historic origins, and the impact they had on policy are explained in illuminating detail.

The second point that I found fascinating is the author's detail on how policy was made within the G-5, a process that had formerly been shrouded from public scrutiny. As the national policymakers were working to find a compromise on policy coordination, so were they determined to sacrifice as little as possible. As a result, the discussion was a constant pushing and probing. Based on extensive interviews with the participants, Funabashi recreates the G-5 meeting and the reader is able to have a ringside seat at these meetings from the Plaza Agreement to the Louvre Accord.

Perhaps the most impressive recreations are those surrounding the actual formulation of the Plaza Agreement and the Louvre Accord. It is clear from this depiction how carefully Treasury Secretary Baker and Deputy Secretary Richard Darman prepared in order to make the Plaza meeting a success, including the preparation of a "nonpaper" that was distributed for discussion but did not officially exist, and the visceral fear that Fed Chairman Volcker and Bundesbank President Karl Otto Pöhl had about a possible dollar crash. In the section on the Louvre Accord, Funabashi shows how the reference range was decided on after Baker came down in favor of dollar stability out of concern that too much of a fall in the dollar's value might lead to higher U.S. interest rates. This is one of the most exciting passages in the entire book.

Finally, the author states firmly that, despite the many difficulties that exist, policy coordination is absolutely essential. With the United States now a net debtor nation and with the international imbalances that exist, the policymakers cannot let up in the least without running the risk of spark-

ing trouble on the financial and capital markets. This was the lesson of Black Monday in October 1987. The policy coordination started with the G-5 Plaza Agreement must be an ongoing drama. As the Bush administration prepares to take office in January 1989, Baker returns to center stage as the secretary of state, and many of the other players are still in place. I look forward to Funabashi's sequel.

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Sado-ga-shima: Historic Drumbeat

Sado is an island guaranteed to please any kind of traveler, whether seeking history, culture, arts, outdoor recreation and nature, or a look at old Japan. Located just off the coast of Niigata Prefecture, Sado is the largest island in the Japan Sea. It is the sixth-largest island in all of Japan, its 857 sq. kilometers making it just smaller than Okinawa. The island remains relatively free of heavy industry, big buildings and mature cities to hold onto Japan's cultural heritage of fishing, drumming, dancing and pottery making. Being an ancient island of exile primarily for those of the upper classes who were resisting the government in Kyoto, the island shares some of the traditions, architecture, food, dance and language of that ancient capital.

Sado island, the "Island of Distant Waves," was not only for criminals. Then as today, the popular culture was strong. Activities and sights abound. Near the town of Ogi is the Rengebuji temple built by the great 8th-century Buddhist priest Kobo Daishi (or Kukai), founder of the Shingon sect of Buddhism. The temple

gardens are immense. A lily pond is located at the foot of a small hill just across from the living area of the priests. Up the hydrangea-lined path are various temples, each set into its own world. The most significant building in the complex can be reached only by passing over a small stone bridge and walking up ancient stone steps which, long ago, women were forbidden to walk.

Another temple to see is Myosenji, built by Nittaku, the first disciple of Nichiren (a great 13th-century priest who founded the Nichiren sect; also a man of exile) on Sado. The featured structure here is the five-storied pagoda, the only pagoda in Niigata Prefecture and modeled after the one in Nikko. Many other historical and beautiful temples speckle the island.

Gold of Edo

The island was, until just 100 years ago, rich in gold. The major gold mine, mined by the exiled criminals, was the best-equipped gold mine in the Edo period and produced enough wealth to finance the government of the Tokugawa Shogunate for nearly 300 years. Today, the original mine is preserved and set up much as it was during its most productive age. Visitors can walk down into the mine to witness the technology used in Edo Japan and to get a small glimpse of the lives of the mining prisoners.

People on Sado island worship Jizo-bosatsu, the guardian deity of children.

Several towns, especially Mano, hold yearly events to show the people's praises of this deity. In Mano, the townspeople dance in a circle while carrying a stone figure of Jizo-bosatsu, weighing up to 60 kilograms.

Sado also has much to offer in the artistic world. Near Mano is Toge-en, which displays and sells the beautiful red pottery of Sado. The clay on Sado is a distinct amber red because of its high iron content. Visitors are offered the opportunity to try their hand at the potter's wheel. You can have your original creation mailed to your home after it has been fired—a great souvenir of your journey.

In the town of Ryotsu, nearly nightly, guests can watch the *taiko* drummers beat out the devil's drum dance (Onidaiko) for the lively, colorful devils and dragons. The Okesa dancers are also there performing in Sado's traditional style. In blue kimono splashed with white waves, wearing straw bonnets, the dancers move to the rhythm of Sado's music. Rhythm and sound are important here. Sado is the home of Kodo, literally "the children of the drum," a world-renowned group of *taiko* drummers.

Those searching for a different beat, namely food and drink, will find Sado does not disappoint. This area is famous for its high quality of rice, Koshihikari. It is also well-known for its fine sake. Tours which take you back into the wooden, dark and musty brewery end with a beau-

