

A new Plaza Accord for global currencies wouldn't work

The conditions and will for a deal are not what they were in 1985

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Photograph: Satoshi Kambayashi

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THE PAST week has set recent records for Asian currencies. The Korean won has dropped to its lowest level against the dollar in 17 years. The Japanese yen has dropped even further, reaching its weakest against the greenback in four decades. America's speedy economic growth and insatiable demand for its tech stocks are raising demand for its currency. As the dollar strengthens, policymakers in Washington bristle. The treasury secretary, Scott Bessent, has groused about the weakness of both Asian currencies this year.

At the same time, currency concerns are rising in Europe, chiefly about the long-term weakness of the yuan. Earlier this year the IMF suggested that the Chinese currency is 16% weaker than it should be based on economic fundamentals. In June Friedrich Merz, the German Chancellor, raised the idea of reprising the Plaza Accord, the

deal from 1985 signed by the finance ministers of America, Britain, France, Japan and West Germany to weaken the then astoundingly strong dollar with co-ordinated currency intervention.

Plaza occupies a totemic position among foreign-exchange traders. The dollar dropped by around 30% against the currencies of America's major trading partners by the end of 1987. George Soros made what he referred to as "the killing of a lifetime"—and his name as a hedge-fund macro trader—betting on the appreciation of the Japanese yen, British pound and Deutschmark.

But if the modern-day Soros wannabes hope for a repeat, they stand to be disappointed. Conjuring a new accord to strengthen the world's seemingly undervalued currencies would be far more challenging today than four decades ago. And even if it could be reached, it may be far less effective.

One reason is the sheer size of today's currency market. The foreign-exchange reserves of the five countries that met at the Plaza Hotel in New York have swelled 14-fold since 1985, from \$132bn (less than 2% of their collective GDP in 1985) to \$1.9trn (more like 4%). But that pales in comparison with the growth in currency trading. In 1986, when the Bank for International Settlements, a club of central banks, first published its survey of the global foreign-exchange market, it estimated daily turnover at around \$200bn. By 2024 this had risen to \$12trn, a 60-fold increase. The ability of the five Plaza signatories to throw their weight around has therefore diminished markedly.

To have the heft to affect markets, a deal would therefore need to involve another signatory—China. The world's second-biggest economy has by far the biggest foreign-exchange reserves, of \$3.4trn, as well as a currency which the West accuses of being unfairly cheap. A new Plaza Accord without China would therefore be like the original one without Japan—which is to say pointless.

Yet Chinese involvement is unlikely. To policymakers in Beijing the Plaza Accord is a byword for foreign subjugation. In particular, they see the stronger yen that emerged from the agreement as the cause of Japan's subsequent lost decades, helping provoke a recession that led the Bank of Japan to keep interest rates too low for too long, which in turn fuelled a boom in asset prices eventually followed by a bust that Japan is shaking off to this day. This economic logic is flawed—China is suffering a property bust similar to Japan's all on its own, without Plaza-like constraints. But good luck persuading Communist Party officials to ignore it.

Even if, somehow, they might be convinced, a new Plaza Accord may not have the same effect on currencies as the original did. In 1985 the promise of currency intervention was paired with that of American fiscal rectitude: the Gramm-Rudman-Hollings Balanced Budget Act, which was moving through Congress as the finance ministers met at the Plaza, did not balance the budget but did help lower the deficit from 4.8% of GDP in 1986 to 2.7% by 1989, and weaken the dollar. Nowadays America's budget deficit is around 6% of GDP and Congress has no Gramm, Rudman or Hollings, let alone three pro-austerity lawmakers, to press for belt-tightening.

The importance of other factors became clear in February 1987, when officials met again, this time in Paris, and tried to stem the slide in the dollar, not its rise. Yet the dollar kept sliding. Today other factors—be it American deficits or Chinese demurrals—also conspire against straightforward outcomes. Traders eyeing easy profits from a new Plaza must be careful what they wish for. ■