Experts weigh dollar move
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pg. 39

Standing outside Frankfurt bank, American GI counts his dollars before exchanging them for German marks. Dollar rose on money markets yesterday. (UPI photo)

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Associated Press

NEW YORK — The US Government's intervention this week in support of the ailing dollar may only be window-dressing and actually may prove harmful, a number of influential economic professors said yesterday.

The action "is cosmetic" unless it is linked to a concrete economic-stimulus program, said Robert Mundell, a professor at Columbia University's School of International Affairs. "You have to know whether any economic leadership will develop in Washington."

On Wednesday, the Treasury and Federal Reserve Board stepped in on foreign exchange markets "to check speculation and reestablish order" after the dollar slipped 17 percent against the Japanese yen and 9 percent against the West German mark over the past year. The slippage generally is blamed on the

Investors, sensing the US bailout of the dollar may not be long-term, reversed a morning rally on Wall Street yesterday. Page 40.

United States trade deficit, which is expected to total $27 billion for 1977. Oil imports, which totaled nearly $39 billion through last November, were the major cause of the imbalance.

Yesterday, the Fed returned to the market, reportedly offering to sell 20 million marks at a time to major banks in exchange for dollars. The purchases of dollars removed the currency from the market, helping drive the dollar's value higher worldwide.

The Fed is financing its purchases of dollars by drawing on the government's $4.7 billion Exchange Stabilization Fund and on the "swap network," a $20 billion fund for short-term credits.

The move to prop up the dollar, if it continues for an appreciable time, may affect international trade because a stronger dollar will buy more marks or yen and hence will make imports cheaper. But the weaker mark or yen also will buy fewer dollars, making US exports more costly abroad.

"There are two sides to a dollar rising or falling," said William Silber, an economics professor at New York University. "This will hurt our export industries. We ought to let the dollar float and let the natural consequences occur.

"In general, you confuse matters by intervening," Silber said.

Nathaniel Leff, a professor at Columbia University's Graduate School of Business, agreed. "The reason we went

DOLLAR, Page 40

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★ DOLLAR
Continued from Page 39

off fixed exchange rates in the early 1970s was precisely because the market rate the Treasury wanted to maintain wasn't the rate the market thought was appropriate. I have no reason to expect the government to be right this time."

Leff said one consequence of the supportive action might be increased government borrowing to finance the intervention. "You'll see the money supply growth rate fall and unemployment rise. Then what will happen on Wall Street?" he asked.

Lawrence Fox, vice president for international economic affairs at the National Assn. of Manufacturers, disagreed, saying "We've always had responsibility to deal with disorderly markets. The Fed's actions are appropriate to the conditions that have prevailed in the past few days."

Fox said Wall Street actually may benefit by the intervention. "There's been very little buying of shares in New York by foreigners because they have been afraid of the dollar falling further. This may help reverse the poor Wall Street showing."

In trading yesterday, the dollar continued its climb on money markets in Asia, Europe and New York. The currency recovered sharply against the Japanese yen. The dollar bought 241,125 yen, compared with Wednesday's record low close of 237.00.

The currency closed higher in Europe against the currencies of Britain, West Germany, Switzerland, France, Italy, the Netherlands and Japan.

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