Bonn Boosts Value of the Mark 5.5%

Dollar Hits New Low in Germany

6/30/73 By John M. Goshko
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BONN, June 29—West Germany today raised the value of the mark 5.5 per cent in an effort to check the inflow of foreign money caused by the weakening American dollar.

In decreeing the revaluation, Chancellor Willy Brandt's government said that the rush to exchange other currencies for marks was putting too much money in circulation inside Germany and hindering efforts to curb this country's mounting inflation.

The revaluation—the second this year and the fourth since 1969—is aimed at discouraging this trend by making the mark more expensive to buy for holders of other currencies.

Bonn acted after the dollar's exchange value against the mark plummeted to a record low yesterday of 2.4710. During the past month, the dollar has fallen by more than 12 per cent in relation to the mark.

The mark's new value of 0.310580 was set in terms of special drawing rights (a system of international exchange referrred to as "paper gold"). This followed the procedure established during the last mark revaluation in March, when Bonn

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Revalued mark aids U.S. trade. *Page D7.*

Fed Takes Anti-Inflation Steps

6/30/73 By James L. Rowe Jr.
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The Federal Board yesterday took its strongest anti-inflationary actions to date, boosting to 7 per cent the rate it charges member banks to borrow from it and knocking $800 million out of the reserves on which banks can make loans.

The actions are designed to squeeze banks and limit the huge expansion of loans that has been taking place this year.

In a statement, the Fed's seven-member board of governors cited the "continuing excessive expansion in money and credit" as grounds for its actions. The move was unanimous, a Fed official said.

The moves will increase the cost of money to banks, and should slow the growth of the money supply and loans.

Just a few hours after the Fed announced its action, Girard National Bank of Philadelphia announced that it would raise its prime interest rate—the rate it charges its best business customers for a short term loan—to 8 per cent. It had been 7.75 per cent.

Other banks are expected to follow Girard in posting increases in their prime rates next week. The last time the prime was at 8 per cent was in September, 1970, as the rate was nosing down-

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Fed Takes New Steps To Combat Inflation

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ward from its historic high of 8.5 per cent.

Despite strong efforts by the Fed to slow growth this year, the money supply spurted at an annual rate of 9.3 per cent during the last 13 weeks, compared with a 1.7 per cent growth in the first quarter of the year.

Other statistics from the Fed showed that business loan demand continued very strong in June, as did consumer and housing loan demands.

The 0.5 percentage point increase in the discount rate to 7 per cent is the sixth such boost this year and matches the highest rate the Fed has ever charged member banks to borow reserves from it. The rate is now a full point higher than the previous postwar record of 6 per cent, which prevailed in the credit crunch from April, 1969, until November, 1970.

The discount rate increase makes it more expensive for banks to borrow to make up for the reserves the Fed trimmed from the system by its second action.

In May the Fed took steps to hold down business loan demands, which it considered a primary cause of the current inflation. It did so by placing new restraints on some of the means banks use to obtain the funds necessary to satisfy business loan demands.

Yesterday's move to reduce the amount of reserves on which banks can make loans was even broader action.

The move, which will reduce bank reserves by about $800 million, is one which the board does not like to take because of its shotgun effect and because it encourages banks to leave the Federal Reserve System.

All national banks have to join the Federal Reserve System, but state-chartered banks do not.

While most states require banks to maintain reserves against their deposits, those reserves generally can be held in some sort of earning asset. Federal Reserve member banks are required to hold their reserves as either cash in the vault or in non-interest bearing deposits at the Fed.

Since 1960, about 700 banks have left the Fed system, and only 100 of the 1,600 newly chartered state banks have decided to join.

The Fed ordered a 0.5 per cent increase in the reserve requirement on demand deposits (checking accounts).

The reserve requirements are staggered, depending upon the amount of checking deposits a bank has. For the first $2 million, the bank must set aside 8 per cent, which the Fed did not change.

For amounts between $2 million and $10 million, the requirement was raised to 10.5 per cent from 10 per cent. The reserve requirement continues to increase until it reaches 18 per cent for all checking deposits over $400 million. The maximum had been 17.5 per cent.

The last increase in reserve requirements took place in 1969, although the Fed restructured the way in which it applied those requirements in November, 1972. There are also small reserve requriements on savings account deposits.

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abandoned the old method of fixing its value in relation to the dollar.

Since the mark currently does not have a fixed parity with most other currencies, the revaluation applies formally only to the money of those countries participating with West Germany in the European Common Market —Norway and Sweden.

As a practical matter, however, all currencies are affected. After today's revaluation, for example, the dollar sank even further to an all-time low. During the day's trading on the Frankfurt money exchange, it dropped at one point to 2.4175, although by closing it had rallied slightly to 2.4325.

This means that it now requires fractionally more than 40 American cents to buy one German mark. Only a month ago, it took 35.25 cents, and in late 1969, just before the onset of the series of world monetary upheavals, one could buy a mark for less than 25 cents.

Elsewhere in Europe today, the dollar fell almost 3 per cent in Zurich to a record low closing rate of 2.94 Swiss francs.

Although the dollar's present troubles are due to several factors, most financial experts regard the chief cause as fear that President Nixon might be forced from office by the Watergate scandal. Even if he survives, there are strong doubts in Euope that he will be able to exercise effective control over the U.S. economy.

The resulting decline in confidence has seen the dollar weaken in all European money markets. But the effects have hit hardest in West Germany, where the mark has again emerged as probably the world's strongest and most sought-after currency.

In recent weeks, all kinds of currencies—many of them purchased by persons unloading dollars—have found their way to Germany to be exchanged for marks. That, in turn, put a severe strain on the Common Market's joint float.

Floating means withdrawing the commitment to maintain the exchange value of a currency at a fixed rate and allowing the rae of exchange to be determined by free market supply and demand. For example, the floating of the dollar against the mark means that the dollar is worth only what holders of marks are willing to pay for it.

Maintain Fixed Levels

Under the Common Market's joint float, the participating countries have agreed to maintain fixed levels of exchange between themselves while floating against outside currencies like the dollar. This lockstep arrangement obliges the participants to keep fluctuations in their exchange rates within 2.25 per cent of each other.

However, the increasing pressure on the mark had started to disturb this ratio by driving up the mark's value in terms of the other Common Market currencies. In order to maintain the agreed parities, West Germany's Central Bank had been forced to intervene in the market increasingly in recent days to buy large amounts of the other currencies.

Finance Minister Helmut Schmidt disclosed today that these intervention purchases had amounted to 4 billion marks (approximately $1.6 billion over the last 12 days. A continuation of this trend, Schmidt said, would have swelled the amount of marks in circulation to the point of crippling the Bonn government's anti-inflation program.

Schmidt's announcement of the revaluation, following a surprise early morning meeting of the Cabinet, caused considerable eyebrow raising, since only last night he had denied vehemently that such a step was in the offing. At that time, he had dismissed the problem as "a minor incident of third-rate importance" and had argued that a revaluation was "economically unjustified."

Today, he admitted that he had lied deliberately yesterday as a tactical means of discouraging speculators from a stampede of mark buying. At a press conference, Schmidt apologized to reporters for what he described as serving them "strawberries with whipped cream" yesterday, but he defending his actions as necessary.

In reality, Schmidt continued, ever since the 3 per cent revalution in March, the government had secretly been working on the assumption that a further upgrading of the mark would eventually become necessary. Originally, he said, the revaluation instituted today had been planned for the end of July or August.

Bonn's purpose, Schmidt said, was to strike a balance between the monetary problems of Germany and other countries. He added that with the revaluation now in effect the Common Market joint float would be continued under the same 2.25 per cent bands of fluctuation.

For Bonn, this has the advantage of putting the mark in a more expensive category that should discorage diversion to it from the other market currencies. But it also has a disadvantage in that Geman goods will now be more expensive for West Germany's trading partners within the Common Market.

Schmidt conceded that this might cause some falling off of West Germany's export business. However, he insisted that because of the general prosperity boom in Europe, the effects on Germany industry should be minimal.

The other market members were informed of the revaluation at a meeting yesterday of the European Economic Community finance ministers in Luxembourg, and today they unanimously endorsed Bonn's action.

There also were expectations that two European countries outside the joint float arrangement—Switzerland and Austria—will now revalue their currencies to prevent a diversion from the mark to them. Officials in both countries said they were studying the problem and would probably announce their decisions on Monday.

Text of Compromise To Cut Off War Funds

Following is the text of the administration-endorsed compromise fund cutoff approved 15 to 2 by the Senate Foreign Relations Committee and offered by Chairman J. W. Fulbright (D-Ark.) and senior Republican George D. Aiken of Vermont as an amendment to the emergency financing resolution for all federal agencies:

"Notwithstanding any other provision of law, on or after Aug. 15, 1973, no funds herein, heretofore or hereafter appropriated may be obligated or expended to finance the involvement of United States military forces in hostilities in, or over, or from off the shores of North Vietnam, South Vietnam, Laos or Cambodia."