Observers Say Nixon Aim Is 12 to 15% Devaluation

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By H. ERICH HEINEMANN AUG 1 7 1971

revaluation of 12 per cent to 15 ternational reserve currency. per cent in relation to major
European currencies and the
Japanese yen, informed financlosed yesterday — either to cial sources outside the Govern- allow time to assess the Presiment said yesterday.

said, the United States appears ance of The Feast of The Asto be seeking a number of im-sumption. portant structural changes in the international financial sys-that did occur, the pound ster-

John B. Connally said yester-day that it would be a "prema-substantially in relation to the ture judgment" to say the Presi-dollar. dent's action amounted to a devaluation of the dollar.

The long-run changes are likely to include, sources said, Continued on Page 19, Column 4

The immediate aim of Presi-somewhat greater flexibility of dent Nixon's decision to allow foreign exchange rates, as well the dollar to "float" in the in- as a less dominant role for the ternational money markets is a United States dollar as an in-

dent's program, or, as in France, Over the longer run, they Italy and Belgium, in observ-

But in the limited trading tem that was negotiated at ling, the German mark, the Bretton Woods, N. H., in 1944. Swiss franc, and Canadian dol-Secretary of the Treasury lar and the Japanese yen—

> Both international financial experts as well as foreign ex-

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change traders at the major York City banks expressed the opinion that once the markets reopened for full-scale op-erations, further depreciation erations, further depred of the United States cur would become apparent. currency

According to a well-informed According to a well-informed private economic expert in Washington, a new pattern of foreign-exchange rates should begin to emerge in a very short period of time, perhaps in two or three days, and that considerable stability could return to the erchange markets within two or three weeks.

Consequences of New Values

If a new set of foreign-exchange values does emerge with what was described as the currently "overvalued" dollar pegged substantially lower in relation to major foreign currencies, several important consequences could be expected, economists said.

American exports should boom, reflecting the reduction in cost of United States goods and services to foreign buyers and services to loreign buyers by a percentage related to the amount of the devaluation. This should give a general lift to production and employment in the United States. After the devaluation is com-

After the devaluation is completed, and especially once a new. lower par value for the dollar is defined, there should be a major return to the United States of funds that are now invested in other countries as a hedge against devaluation.

This should bring down interest rates in the United States and improve the availability of funds for lending here.

Reform Foreseen

The re-emergence of stability in foreign-exchange trading, ac in foreign-exchange traums, according to one economist who asked not to be identified, should set the stage for the opening of serious negotiations for the reform of the international financial mechanism.

Just exactly what is proposed, and what is worked out, will depend on the reaction of foreign governments to President Nixon's actions. But analysts said yesterday that they expected an American initiative in at least the following two key areas: key areas:

¶A widening of the range, or band, within which currencies are allowed to fluctuate above and below their defined par values. Last week, Wall Street sources reported that the United States had formally proposed to the executive directors of the International Monetary Fund that the band be expanded to 3 per cent above and below par, from the present I per cent. But analysts said yesterday that they doubted that bands wider than 2½ per cent would be accepted.

¶A sharp limitation on further

qA sharp limitation on fur-ther increases in dollars held by other countries as part of their official foreign-exchange re-serves. At the end of April, the most recent date for which figures are available, these of-ficial foreign balances came to

more than \$27-billion, almost double the amount held a year earlier.

Economists emphasized that both these proposals — which will be only two among many that will be discussed — implied a strong desire on the part of the United States not to destroy, but rather to refurbish, the basic Bretton Woods system. Economists emphasized that

Most importantly, they contemplate the retention of the Bretton Woods par value system, under which currencies have defined relationships one to the other and are limited in to the other, and are limited in the extent to which they can depart from those relationships.

Secondly, if the world's need for future growth in international reserves is not to be met by further official accumulations of dollars, then the logical substitute will be the special drawing rights, or S.D.R.'s, that are issued by the International Monetary Fund.

This implies that the monetary fund, which was one of the principal institutions created by the Bretton Woods conference, will continue to play a central role in international finance.

Other Proposals Expected

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Other Proposals Expected

Beyond this, many proposals for international monetary refor international monetary re-form that have been advanced in recent years may be taken up at the talks. These include suggestions for a semiauto-matic formula under which cur-rencies could adjust, or "crawl," upward or downward in response to pressures in the in response to pressures in the

foreign-exchange markets; proposals for international reserves composed of many convertible currencies, and not just the dollar, and proposals to allow currencies to float periodically, without reference to their par values.

The aim of the Bretton Woods conference, when it was convened during World War II, was to end the financial chaos that had characterized the Depression era—competitive devaluations; multiple, bilateral currency arrangements, and the greatest collapse in commodity prices and shrinkage in world trade that modern industrial society had ever experienced.

As the monetary fund has described it in its official history, there was "an interna-