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CONGRESS LIKELY TO
STOCK MARKET UP 32.93
MOST WORLD CURRENCY

York Times

CITY EDITION

Weather: Sunny, warm today; clear tonight. Sunny, warmer tomorrow. Temp. range: today 63-85; Monday 64-82. Temp.-Hum. Index yesterday 74. Full U.S. report on Page 57.

TUESDAY, AUGUST 17, 1971 — Higher newsstand price in air delivery cities M 15 CENTS

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CONCERN IN JAPAN

AUG 17 1971

Stocks Down There—Tokyo Seeks to Hold Yen-Dollar Parity

NYTimes

By CLYDE H. FARNSWORTH

Special to The New York Times

PARIS, Aug. 16—Europe and Japan reacted with anxiety and confusion to President Nixon's radical economic measures, as officials were summoned back from August vacations for consultations on what to do.

The first act in all the major centers except Tokyo was to cease official currency dealings. Mr. Nixon's suspension of the quarter-century-old pledge to convert foreign dollar holdings into gold has forced these governments into difficult decisions about the value to set for their currencies in relation to the dollar and other currencies.

Broadly speaking they have these options: to maintain their present currency values, to "float" upward against the dollar or formally to raise the value.

Foreign Stocks Slump

Each of the possibilities poses enormous political and economic complications for a foreign nation. President Nixon's decision, forced by the heavy outflow of United States gold to finance the American balance-of-payments deficits, signals a fundamental change in the development of the postwar monetary system.

The first financial reaction today was a severe slump in foreign stock markets brought on by President Nixon's imposition of the 10 per cent surcharge on imports. This demonstrated the enormous impact the United States has on foreign economic conditions.

Among the stock markets of the world, the Tokyo exchange took the sharpest dive. Nearly one-third of Japan's exports go to the United States. Japan is more heavily dependent on American markets than any other country.

Despite the stock decline, Japan stressed her determination to maintain the yen's present dollar parity by keeping the Tokyo foreign-exchange market open today. Tokyo sources reported the Bank of Japan was forced to absorb more than $600-million to keep the yen

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The New York Times/Barton Silverman

WATCHING STOCK MARKET'S REACTION: People on the street in the financial district viewing a quotation board in office of Merril Lynch, Pierce, Fenner & Smith yesterday.

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from rising above its present fixed rate of 342 to the dollar.

The Japanese were reported to be closely watching the European reaction. Should the European currencies increase in value against the dollar, the yen would, in effect, be devalued against the European currencies.

An official of the Bank of Japan, according to an Associated Press dispatch, hinted that the Japanese might be forced to reconsider the parity question because "European countries would be unlikely to tolerate for long a devaluation of the yen against their currencies."

The implication was that the Europeans might also slap a surcharge on Japanese imports if the Japanese did not increase the yen's value. West German industrialists are particularly concerned over the competitive edge the Japanese have gained because of the higher value the mark has reached since it was floated in May. West Germany is Japan's principal world competitor.

In Europe alarm was voiced by industrialists over what they saw as an American retreat toward protectionism. Others were concerned that foreign governments might retaliate by slapping surcharges on American imports.

Under Secretary of the Treasury Paul Volcker met in London with key foreign economic officials. It was seen as an effort to try to head off retaliation. Mr. Volcker's meetings were also seen as an effort to press home the American position that foreign-currency changes were needed to give the badly battered dollar a stronger position in foreign-exchange markets.

The Monde Sees 'Blackmail?

The President said the surcharge would be eliminated when "unfair" treatment of the dollar ended. Le Monde, the French newspaper, called this "a type of blackmail."

Gold trading in the free market was also suspended everywhere except Hong Kong, where the price rose from $44.33 an ounce to $45.51.

The heavy pressure on the dollar, which compelled for eign central banks to buy dollars to support the fixed exchange rates, was accompanied by a rush of gold buying.

Speculators thought the dollar would be devalued in aterms of gold, which would mean an increase in the official $35-an-ounce price that has ruled for 37 years.

In fact, the more sage counsel among foreign officials was that the Nixon measures had laid the gold question to rest for the time being. The United States is trying to force other nations to take exchange rate actions instead of devaluing itself.

One is the mirror of the other. An upward revaluation of other currencies would be the same as a devaluation of the dollar, in relation to them. Even as the foreign-exchange markets were closed, American tourists all over Europe were finding it more expensive and difficult to exchange their dollars for foreign currencies.

The 10 per cent surcharge has the same effect as devaluation on imports: it raises their cost. If the dollar were devalued, it would mean in addition that American exports of goods and services would be cheaper. This is the effect, too, if the values of foreign currencies are increased.

One result would be to improve the American foreign-trade account, which is expected to slip into deficit this year for the first time this century.

Yet, there is strong resistence to currency revaluations because a revaluation has a depressant effect on an economy.

Washington's "big-stick" monetary policy has forced foreign governments to either accept the depressant effects or swallow unlimited supplies of dollars, which would give the United States unlimited credit. This was the foreign dilemma posed by Mr. Nixon.

Mark Is Floating

Governments were cautious in their pronouncements. The West German Government spokesman, Conrad Ahlers, said, "The [Bonn] Government has understanding for the [American] measures to reestablish internal and external economic equilibrium," adding that the Nixon measures "underline the need for improvements in the international monetary system."

After a currency crisis last May, the prelude to the August turmoil, the West German Government "floated" the mark by detaching it from its fixed, dollar peg of 27.3 United States cents. The mark is now trading some 8 per cent higher than the May rate.

The Netherlands and Canada are also "floating" their currencies. There has been pressure on West Germany's and the Netherlands' partners in the Common Market — France, Italy, Belgium and Luxembourg —to participate in a generalized community float against the dollar.

Floating, which is technically against the monetary rules, relieves a government of the obligation of accepting unwanted dollars.

Some experts think a temporary float of a number of currencies could result from the Nixon measures.

Japan Opposes Float

France and Japan, however, oppose this solution. Despite a heavy influx of dollars, both countries have strongly resisted any change in their dollar values. It remains to be seen whether they will maintain this position.

French official sources took a carping tone in reacting to the Nixon measures. They said that Washington had recognized its "real responsibility" for monetary disorder and added that no French decisions would be taken until after a special Cabinet meeting that President Georges Pompidou has called for Wednesday afternoon.

West German stock prices were also badly hit, especially thse of export-oriented companies, such as Volkswagen, which sells a third of its cars in the United States. Volkswagen shares were the most actively traded on the Frankfurt Stock Exchange.

The Institute of German Industries spoke of the "gravest international monetary crisis since World War II."

The institute and other trade organizations and corporations were sharply critical of the American action.

Otto Wolff von Amerongen, President of West Germany's Chamber of Industry and Commerce, termed the American measures "a heavy blow against world trade." He said the 10 per cent surcharge was "unbearable" and would "ruin West Germany's trade with America."

Paul Huvelin, the head of the Patronat, the French equivalent of the National Association of Manufacturers, "said that French trade with the United States would be "very profoundly affected" by the American measures.

A former Premier of France, Antoine Pinay, who devalued the franc in the nineteen-fifties, characterized the Nixon measures as the "grave" period ahead.

The British Scotch Whiskey Association said it "deplores any move towards protectionism." British auto and aviation-1industry spokesmen also expressed concern. One big question was what effect the dollar-shoring action would have on the RB 211 engine, which is being built by Rolls Royce to power the Lockheed Tristar airbus.

Surcharge Is Illegal

If these engines are subject to the levy, it would add about $240,000 to the cost of the three engines needed for each aircraft, according to aviation industry sources in London.

The Swiss watch industry, the Italian shoe industry, the West German chemical industry and the Japanese automobile and electronics industries were among other business groups expressing anxiety over the American import surcharge.

According to world trade rules, the surcharge is illegal. However, Britain used it in 1964 as a currency-support measure. Other nations tolerated it, but Britain eventually had to devalue the pound to $2.40.

The agency in Geneva that supervises the General Agreement on Tariffs and Trade is expected to request that the United States explain next week why the surcharge had to be imposed.

The big question was whether other trading nations would accept the American surcharge with the same tolerance as they did the British, or whether they would choose this time to retaliate, throwing the world back into an era of nationalistic economic policies similar to the nineteen-thirties.

The Common Market's high-powered monetary committee will meet tomorrow to try to organize a concerted reaction by the six member states. There may also be a meeting shortly of the market's Council of Ministers.

Italy Faces Recession

Of all the foreign countries that have to make a parity decision, Italy is in one of the toughest positions because she is now facing a serious recession, which would be aggravated by an upward revaluation of the lira. Still, a slight revaluation is expected—perhaps from the present 625 lire to the dollar to 600.

Cabinet meetings were called today in Britain and Canada to discuss the Nixon policies. Canadian officials, as did their counterparts in Europe and Japan, expressed serious concern over the implications oof the import surcharge. Canadian prosperity depends heavily on sales in the American market.

But Canadians also fear that their floating dollar will be driven higher as a result of the American measures hitting Canadian exports throughout the world.

There was no indication tonight exactly when the foreign exchange markets would reopen in Europe. Today in unofficial transactions the dollar continued to weaken against cies particularly the West German mark and the Swiss franc.