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DOLLAR PRESSED BY SPECULATORS

Central Banks in Europe Must Buy Large Amounts

By DOUGLAS W. CRAY

The United States dollar came under intense speculative selling pressure last week in the money-market centers of Europe. At the end of the week, central banks in Europe and Japan were obliged to buy substantial amounts of dollars to hold the United States currency at its official minimum level in their home markets.

On another front, pressure has increased for the imposition by the Administration of wage-price controls or the creation of a high level wage-price review board. Among those who have spoken out recently in favor of an incomes policy or review board is Dr. Arthur F. Burns, chairman of the Federal Reserve Board.

Last week's pressure on the dollar has been attributed to a number of factors, foremost among them continuing inflation in the United States. Inflated prices have reduced the competitive position of United States exports in world markets and inflation has added to the rising deficits in the nation's balance of payments.

Mindful of this pressure, Wall Street sources indicated last week that the United States had proposed to the International Monetary Fund that the band within which currencies are permitted to fluctuate be widened from the present 1 per cent above and below their defined par values to 3 per cent.

I.M.F. Talks Expected

There has been no confirmation of the Wall Street reports from the Treasury Department, but there was little doubt in Washington and at the I.M.F. offices that the matter would be a subject of conversation at the annual meeting of the I.M.F. in Washington on Sept. 27.

When a nation devalues its currency, the prices of its exports tend to drop, while imports become more costly. One effect, therefore, is generally to improve its trade position. Inasmuch as the United States is now facing its first annual trade deficit since 1893, some economists have advocated a devaluation. It would also help to improve the balance of payments of the United States. Basically, the balance of payments is the difference between total payments made to foreign nations and total receipts from foreign nations during a given period. Such diverse things as business abroad, tourism and military operations abroad contribute to the payments outflow.

In European markets last week strenuous efforts were reported on the part of central banks to reduce the turmoil that surrounded foreign-exchange trading in the dollar. It was estimated, for example, that the Bank of France, might have taken in between $200-million and $300-million to keep the dollar from dropping below its lower limit of 5.513 francs to the dollar, or 18.139 cents. The limits are set in accord with the I.M.F.

It was also estimated that the Bundesbank, the central bank in West Germany, had bought $43.5-million in dollars, even though the West German mark has been allowed to float freely since May, as a result of speculative buying in anticipation of an upward revaluation.

Belgium Also Buys

The National Bank of Belgium, in turn, reportedly purchased $11-million in dollars on Friday to keep the dollar above its floor of 49.625 Belgium francs to the dollar or 2.015 cents per franc.

The latest speculative pressure on the dollar was triggered in part, according to some foreign-exchange observers, by a suggestion issued last weekend by the Joint Congressional Economic Subcommittee on Exchange and Payments that the United States should devalue the dollar unilaterally. The committee's report said the dollar was overvalued and that the gold-convertibility pledge maintained by the United States should be withdrawn and the dollar permitted to float downward in relationship to other major currencies.

The proposal to widen official parity bands—the amount by which one currency may fluctuate in relationship to others—would allow currencies to better weather speculative pressure, and thereby reduce the need for formal devaluations or revaluations. The currencies of the Netherlands, Canada and West Germany have been allowed to float, but technically that is counter to I.M.P. rules.

In Switzerland—where the National Bank paid the floor rate of 4.06 francs for dollars last week in transactions estimated by some dealers to total $2-billion—action was taken to reduce the inflow of dollars.

The Swiss National Bank, in an agreement reached with the Swiss Bankers Association, decreed that effective Monday Switzerland's banks would have to maintain 100 per cent reserves on foreign funds in excess of those on deposit on July 31. The National Bank also banned interest payments on deposits made by nonresidents after July 31, except those deposits that cannot be withdrawn for six months.

Summing up one chaotic week on Friday, the Chase Manhattan Bank, a leading international banking force, said the situation showed "widespread loss of confidence in the dollar."