Observers Say Nixon Aim Is 12 to 15% Devaluation

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The immediate aim of President Nixon's decision to allow the dollar to "float" in the international money markets is a revaluation of 12 per cent to 15 per cent in relation to major European currencies and the Japanese yen, informed financial sources outside the Government said yesterday.

Over the longer run, they said, the United States appears to be seeking a number of important structural changes in the international financial system that was negotiated at Bretton Woods, N. H., in 1944.

Secretary of the Treasury John B. Connally said yesterday that it would be a "premature judgment" to say the President's action amounted to a devaluation of the dollar.

The long-run changes are likely to include, sources said, somewhat greater flexibility of foreign exchange rates, as well as a less dominant role for the United States dollar as an international reserve currency.

Most of the world's principal foreign exchange markets were closed yesterday — either to allow time to assess the President's program, or, as in France, Italy and Belgium, in observance of The Feast of The Assumption.

But in the limited trading that did occur, the pound sterling, the German mark, the Swiss franc, and Canadian dollar and the Japanese yen—among others—all advanced substantially in relation to the dollar.

Both international financial experts as well as foreign ex-

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

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 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 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, 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:

¶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 1 per cent. But analysts said yesterday that they doubted that bands wider than 2½ per cent would be accepted.

¶A sharp limitation on further increases in dollars held by other countries as part of their official foreign-exchange reserves. At the end of April, the most recent date for which figures are available, these official 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.

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 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

Beyond this, many proposals for international monetary reform that have been advanced in recent years may be taken up at the talks. These include suggestions for a semiautomatic formula under which currencies could adjust, or "crawl," upward or downward 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 international economic community where 'beggar-my-neighbor' policies were the rule, and the best-intentioned attempt to restore order to the financial system were endangered by the desperate attempts of weaker countris to hold their own in face of cutthroat competition."

This was the situation that the Bretton Woods conferees were trying to remedy. They established as their ideal a system in which countries would have a single exchange rate, defined—because the United States, alone among the major powers, had its industrial plant intact and possessed most of the world's monetary gold—in terms of gold and its official price of thirty-five United States dollars an ounce.