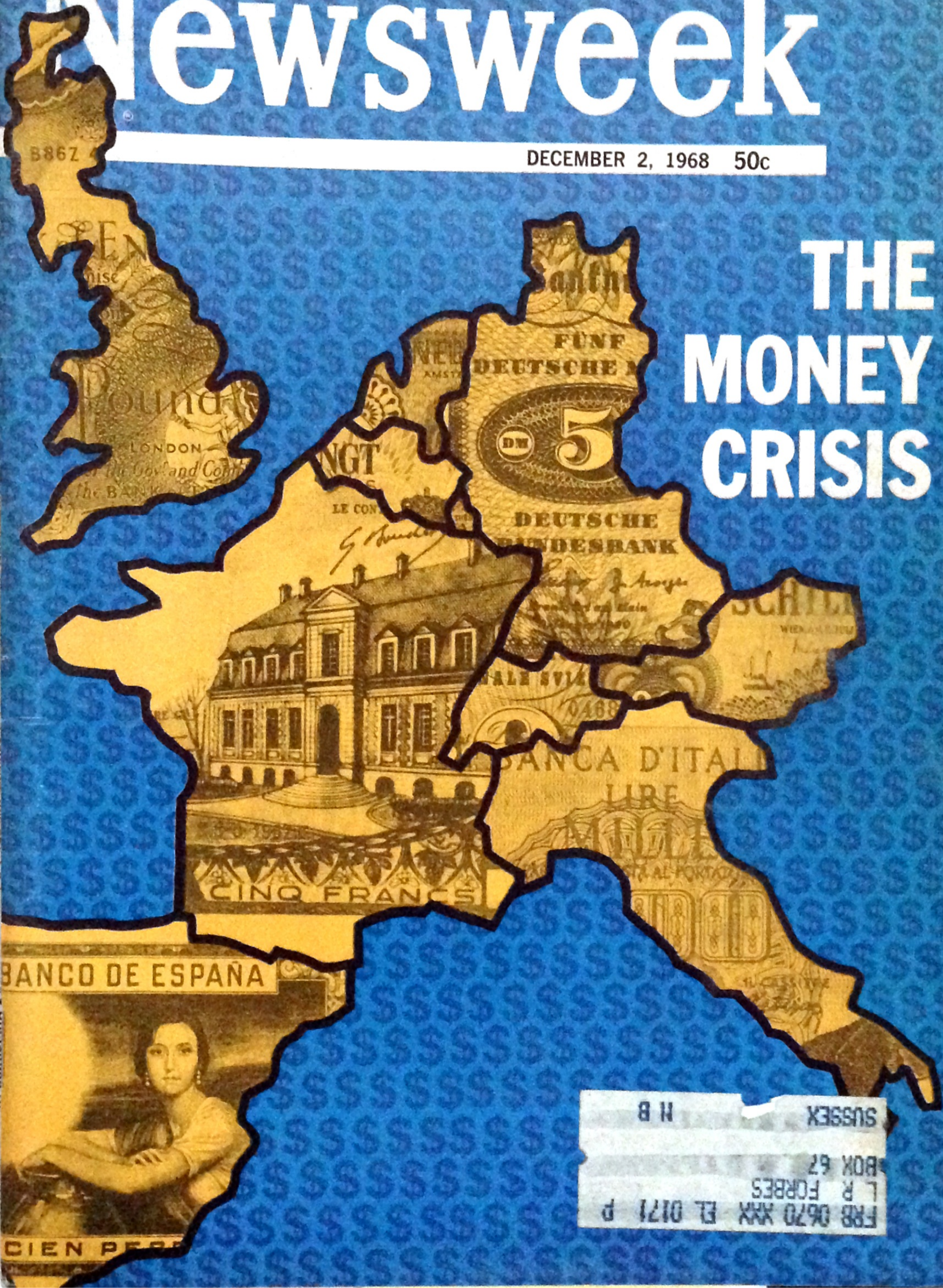
Newsweek

DECEMBER 2, 1968 50c

THE MONEY CRISIS



THE MONEY CRISIS

Oliphant © 1968—The Denver Post

It was the third crisis in twelve months in the bewildering but desperately important world of international finance. A year ago the British pound fell, devalued under a massive speculative assault. Three months later the mighty U.S. dollar was reeling under the same sort of pressure, and only a hurried tinkering with the price of gold saved the monetary system. Last week it was the turn of Charles de Gaulle and his proud franc, and it was becoming increasingly clear that what has been happening is not a series of isolated crises, but one big crisis on the installment plan—one that proves something is badly out of kilter in the whole system.

Once again, as the world's money markets dissolved into speculative chaos, the small band of worried men who are responsible for keeping the financial world running emerged from their banks and ministries for an emergency meeting. This time the meeting was in Bonn, in a drab, gray stucco building at the foot of the Hardthoehe Mountain. Once again the major currency markets were shut down to give the moneymen a calmer atmosphere for their crisis talk and to staunch the speculative flow of currencies. But this time the mood was edgier, and diplomatic courtesy gave way to acrimony. After three days, the ministers put together an agreement that involved devaluation of the franc—or so they thought, a huge new credit package for the French Government and still another savage bite of austerity for hard-pressed Britain.

Absurdity? The key to this package was French devaluation—a move that de Gaulle had called "the worst of absurdities" only ten days earlier. Tactfully, the moneymen left it to the French to announce the move. But they were so sure de Gaulle would knuckle under that German Finance Minister Franz Josef Strauss told reporters that the devaluation was in the works, and in the next 24 hours, it was taken as a matter of course. French newspapers even howled up a storm of criticism of Gaullist policies; Frenchmen resigned themselves to the loss of prestige and purchasing power; governments, businessmen and speculators around the world got set to adjust to a lower franc parity. The only question, nearly everyone agreed, was how deep the cut would be.

Then de Gaulle dropped what may be the biggest bombshell in a long life of unpredictability. After a special weekend Cabinet meeting, a spokesman read a brief statement by lamplight in the Elysée Palace courtyard, saying simply that the franc's parity would be maintained. It was assumed there would be additional measures taken to curb speculation, bolster France's sagging trade position and clamp down on its internal economy with austerity measures designed to restore financial stability—but for at least another day, de Gaulle wasn't saying what they would be.

APIS

Padlocked Bourse: The reckoning

Closeted in the Elysée Palace, the French President must have been gratified at the wave of shock his announcement sent around the world. "This is an unholy mess," groaned a U.S. monetary official. "Where does the rest of the world go from here?" demanded a stunned London banker. "Madness," cried French economist Pierre Uri. "This is megalomania on a really astonishing scale."

The biggest immediate question was whether the tide of speculation could be stemmed when exchange markets reopen this week. In general, European traders were pessimistic. In Zurich, a leading banker warned: "This leaves us where we were—in full crisis. It will be catastrophic." "I don't know how in hell he expects to hold the franc," agreed a London banker. "We're all going to be on very thin stilts for a while." U.S. experts were more optimistic, predicting that the speculators would pause to assess the new conditions and the momentum of the speculative rush would die out. "I think now we'll get a period of quiescence," said one New York moneyman who speculates a bit himself.

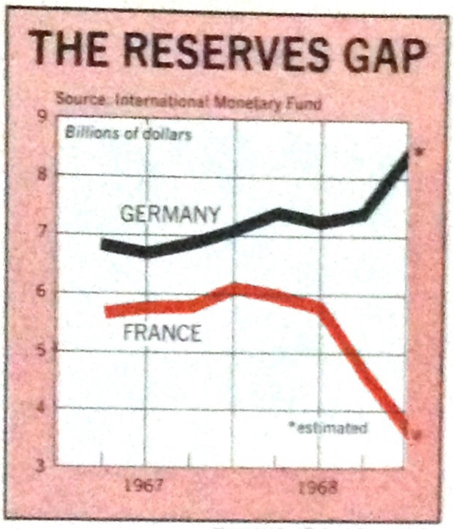
Erosion: Beyond the immediate crisis, what was de Gaulle's long-range strategy? Here speculation was almost as wild as the currency markets themselves last week. Some experts suggested that de Gaulle's pride wouldn't let him back down in formal fashion but that he would accept a de facto devaluation by neglecting to support the franc and letting it fall as far as the market dictated. Others said he was deliberately trying to provoke the kind of shattering world crisis that could only be resolved by reforming the whole monetary system. (Only a day before some of these same commentators had suggested that de Gaulle might devalue massively in order to achieve the same goal.) Still others wondered whether de Gaulle, who is not himself a sophisticated economic thinker, hadn't simply got so angry over the results of the Bonn meeting and Strauss's leaking of the news that he flatly refused to devalue, come what may. But whatever his motives, the outcome seemed certain to weaken still further the tottery structure of international finance.

Moreover, the week of crisis also seemed destined to touch off wide-ranging political shock waves. Under the impact and aftermath of the spring riots, French prestige had been weakening along with its franc for months, and Gaullist foreign policy was largely discredited when the Russians invaded Czechoslovakia. With the apparent devaluation, the focus of power in Europe seemed to have shifted decisively from Paris to Bonn—and in fact, on the very day of de Gaulle's thunderbolt, Germany's largest newspaper, Bild Zeitung, crowed in banner headlines: "Now the Germans are No. 1 in Europe!" But de Gaulle has been counted out almost as often as Harold Stassen, only to reappear again. In the stunned dismay that followed his franc force play, no one could be sure he would not ultimately succeed in forcing a monetary reform that would restore France's prestige.

Nemesis: France's trouble began last May with the students' and workers' riots. Until then, the rock-steady French economy had made the franc one of the world's strong currencies and given de Gaulle a platform from which to snipe skillfully at the prestigious pound and dollar. But the riots forced wage boosts averaging some 13 per cent throughout France, touching off an inflationary wave that ate into confidence in the currency. Francs began to drift out of the country, to be exchanged for harder currencies, and France's hard-won reserves dwindled as the foreign buyers of francs turned them in for dollars or gold.

This need not have been calamitous; de Gaulle's strategy was to try to offset the wage boosts by expanding the French economy and improving productivity. But this would have taken time. And meanwhile, the weakness of the franc was being matched by the strength of the German mark. Germany, with a burgeoning modern industry, robust exports, tame labor unions and no inflation to speak of, was piling up fresh reserves at an embarrassing rate. There was talk that the mark might have to be revalued upward, as had been done in 1961. And this possibility of collecting a profit proved an irresistible lure to investors who held francs—a group that included corporation treasurers, currency dealers, Frenchmen of all descriptions and European owners of French securities. Literally billions of francs flowed across the border into German investment, along with copious sums of speculative dollars, pounds, Italian lire and Belgian francs. All the signs of a speculative frenzy developed; rumors flew, and the flow of money mounted to flood. The franc was weakening, and something had to give.

The climax came early last week when, in one three-day period, a terrifying $1,770,000,000 worth of foreign currencies poured into Germany. A German



Newsweek—Robert Rosenthal

Opening for a stampede

Government spokesman later described the torrent as "unparalleled in financial history," and no one was disposed to argue. "We are asphyxiating in currency," cried a Deutsche Bank official in Frankfurt. And so there was a round of trans-atlantic phone calls, the convening of the crisis session of the Group of Ten major financial powers, the shutting of most markets and the long talks.

As most of the participants saw it, the best solution to the crisis would have been to adjust the parities (glossary box) of both the mark and the franc—making the mark somewhat more expensive in relation to all other currencies and devaluing the franc by about the same amount, with possible smaller movements upward for such strong currencies as the Swiss franc and the Dutch guilder. This would have put all currencies on roughly even competitive terms—and, not so incidentally, would have eased the pressure on the ailing British pound and U.S. dollar.

Rationalists: But the Germans, with a new, proud independence born of their economic muscle, would have no part of any such scheme. They argued, accurately, that revaluation would have punished them for their success. "We're the only ones who have pursued a rational economic policy," said a Düsseldorf banker, "and now everybody's trying to bring us down to their level." "It is quite unacceptable," snapped Economics Minister Karl Schiller, "that we Germans should correct mistakes by other countries in their own houses."

Germany did agree to a change in its tax policy that will cheapen imports and raise export prices by about 4 per cent—a move that could cut its fat payments surplus by $1 billion or more. Even more important to the immediate crisis, Germany imposed new banking restrictions aimed at shutting off the flood of foreign currencies that have been exchanged for marks in recent weeks in anticipation of a revaluation. But these moves alone would have been clearly inadequate to check a currency stampede that has been measured in billions of dollars in the past two weeks alone. So, in the end, the French had to agree to consider devaluing the franc. Thereupon, the ten nations agreed to provide $2 billion worth of their own currencies

THE WAY MONEY TALKS

Following are translations of some of the more common terms in the international monetary world:

Parity. The value of a currency in relation to the dollar and to gold, as officially set under the rules of the International Monetary Fund. One pound sterling, for example, is worth $2.40 in U.S. money. One dollar, in turn, is worth one-thirty-fifth of an ounce of gold.

Reserves. A nation's treasure chest, measured in gold and the "reserve currencies" of U.S. dollars and pounds sterling it holds. Reserves are used to settle deficits arising from unbalanced trade and capital flows. They are also a visible measure of national prestige and, ultimately, diplomatic power.

Deficit nation. A country whose balance of payments is in more or less chronic deficit. Reserves dwindle and prestige falls, and the national currency comes under attack. Unless the payments balance can be turned around, the currency must be devalued.

Devaluation. A downward shift in the parity of one currency. Since a nation's exports are priced in its own currency, devaluation makes exports more competitive on world markets; it also makes imports more expensive at home, and thus tends to improve the balance of payments.

Revaluation. An upward shift of parity. The effects are the reverse of devaluation.

Trading bands. The limits set by the IMF for day-to-day fluctuations of currency values, generally 1 per cent of official parity. If the mark rises to its ceiling, the German central bank must sell enough marks to meet the demand at the ceiling; if francs fall to their floor, the French bank must buy all that are offered.

Swap agreement. In effect, a credit line between central banks to be used when a currency is under speculative attack. If the Bank of France, say, is using up its reserves buying francs at the parity floor, it may simply exchange francs for a stated amount of dollars from the Federal Reserve Bank to continue its buying without using up reserves.

J. H. Darchinger

Conference table at Bonn: Outrage, acrimony and dissension

for France to use in defending the parity of the franc in world currency markets. To avoid humiliating the French, no strings were formally attached to this guarantee; but the guarantors regarded devaluation of the franc as a foregone conclusion. Indeed, in anticipation of the new pressure that a franc devaluation would put on the British pound, Britain's government promptly took major new steps to curb consumer spending and slash imports.

Would the package work? Even before de Gaulle reneged on devaluation, officials around the world were both skeptical and bitter at the failure of the Bonn meeting to come to grips with basic problems. "I am very much afraid that it's patchwork," said a monetary official in Washington. Although nearly all the experts predicted that the Bonn agreement would tranquilize currency markets at least for a while, estimates of the pause varied from a relatively optimistic four months (a New York economist's guess) to a frightening two days (the view of several currency traders in Zurich). After that, a renewed speculative crisis was all but universally predicted. The next target might well be Britain, with its dwindling reserves, heavy debts and sagging credit lines. The voracious speculators might start a run on sterling, hoping to force another devaluation of the pound and producing a quick profit for themselves. And after that, the speculators could again attack the U.S. dollar by bidding up the price of gold. If the dollar fell, it could bring a period of true international chaos, with a repetition of the dismal experiences of the 1930s.

In this gloomy perspective, there was a growing feeling among economists that what is happening is nothing less than the final decay of the international monetary system that was created in the historic Bretton Woods conference of 1944. On the well-tried theory that it is best to act while there is still a choice, many experts—significantly, including several of President-elect Nixon's close advisers—were calling last week for a new Bretton Woods to overhaul the whole rickety structure and begin anew.

Such a reform would undoubtedly please Charles de Gaulle, who has been pushing for just such a conference for several years. It would also satisfy the Germans, who hinted broadly last week that one reason they were refusing to revalue was that they wanted to keep their bargaining position for the real crunch of reform talks. Indeed, basic reform may be inevitable—and after last week, sooner rather than later. But if the tangled and acrimonious story of the week is any guide, agreement on a new system will be neither easy nor quick.

Herblock © 1968—The Washington Post

'Foreign Exchange'

The week began with the crisis already well under way; on the previous Friday, the flow of money into Germany had come to a staggering $650 million. By chance, central bankers of the major nations were already slated to hold one of their regular monthly meetings at Basel that weekend, and it was widely expected that some deal would be struck there to ease the crisis.

Sticking Point: Sure enough, Germany offered a loan—reportedly $1 billion—to help France fight off the speculation in francs. But France balked, apparently because Germany refused to revalue and demanded that France put fresh restrictions on its economy as a condition for the loan. There matters stuck, and the head of the German central bank, Karl Blessing, defiantly stalked out of the meeting and crisply told reporters: "I have absolutely nothing to say. I will say nothing. We are going to risk a bad market tomorrow."

A bad market was exactly what they got—not as bad as Friday's, because of technical market patterns, but horrendous by normal standards. The franc was on the floor of its trading band and being battered; the pound and dollar were under heavy pressure; in Paris, the mark soared through its ceiling. French Premier Maurice Couve de Murville addressed the nation on television, blaming France's monetary woes on the general state of the monetary system and saying, in notably vague terms, that France's monetary allies had promised help.

It was also on Monday that Henry Fowler, who was in Europe for a round of official farewells before resigning as Treasury Secretary, flew off to Bonn for consultations with the Germans. Fowler's trip rapidly became something of a mystery tour, since he refused public comment on what he was doing and was followed by a wave of conflicting accounts of what actually happened. According to officials in Washington, who kept in touch with Fowler through the White House situation room, his instructions were to keep out of the infighting and urge both the French and the Germans to maintain a spirit of friendly cooperation. "All this business about the U.S. exerting pressure is a bunch of hogwash," snorted one aide.

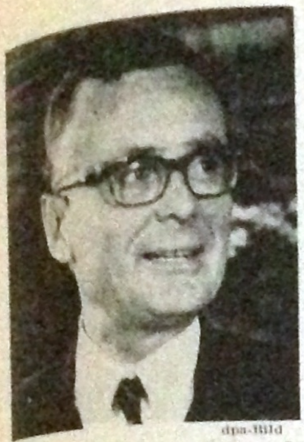
But according to German accounts, Fowler met with Schiller, Franz Josef Strauss and Chancellor Kurt Georg Kiesinger and flatly urged a German revaluation. The dialogue that followed:

Strauss: "I would resign rather than accept a revaluation."

Schiller: "You must understand, Mr Fowler, that most of us here think that if any currency is overvalued, it's the U.S. dollar."

Fowler: "The dollar is sacrosanct. Gold is like the sun in the sky, and the dollar is like the moon. The distance between them is immutable."

Fowler's end of this reported conversation seems more florid than his usual style, but other accounts of subsequent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London Daily Express


J.H. Darchinger


UPI

Schiller, Jenkins, Fowler, Ortoli: After all the acrimony, a new sense of uncertainty

events also suggest that the U.S. lined up with Britain in urging a German revaluation coupled with a French devaluation. If so, it was a losing argument—perhaps because of the lame-duck position of the U.S. delegation. And the next day, underlining this sorry status, Fowler was kept cooling his heels for half an hour in an anteroom when he visited Kiesinger again.

In the markets, Tuesday's action was only a bit better than Monday's. It was clear something had to be done, and Schiller was prepared to do it: he had been working for weeks on two alternative plans, code-named "Dicke Bertha" or Big Bertha (for a mark revaluation) and "Feldhaubitze" or field howitzer (the tax changes to cheapen imports and make exports more expensive, amounting to a small backdoor revaluation). Now he appeared on television to announce that the Feldhaubitze tactic was in the works.

'A Bit of Luck': Schiller was also taking his turn as acting chairman of the Group of Ten, an informal power structure within the International Monetary Fund. This, he grinned later, was "a fabulous bit of luck," since it allowed him to call the emergency meeting and name Bonn as the site—a bit of symbolism that was lost on nobody. He fired off rather pre-emptory cables to his colleagues ("You may, at your discretion, be accompanied by your deputies . . ."), setting the meeting for Wednesday, and announced that Germany's financial markets would be closed until further notice. France followed suit, and Britain halted currency trading. On the only major market left open, in Zurich, prices gyrated for the rest of the week.

And so the bankers converged on Bonn. On Tuesday morning, U.S. Federal Reserve Board chairman William McChesney Martin had been eating a hurried lunch with a colleague in the White House canteen; the colleague got a can of beef stew from a vending machine, but it came out cold and had to be eaten with a mustard stick because there weren't any spoons. "I wish I had a picture of you," Martin told him, "so I could show people what international finance is really like." That night he found out for himself, winging across the Atlantic in a cheerless, windowless KC-135 jet tanker.

In Bonn, dissension was already rife; even the Germans weren't solidly united. Karl Blessing's Bundesbank was leaning toward revaluation, and somebody leaked to the press an internal bank memo bluntly warning that Schiller's Feldhaubitze plan was "not likely to be adequate." An outraged government official told reporters that he found it "incredible" that the Bundesbank would "stick a knife in the back" of its own government at such a delicate moment.* But even the government recognized that the export-import restrictions were not enough, and announced a supplementary plan to slow the flow of foreign funds into German banks.

That seemed to satisfy the Bundesbank, but not so the money men storming into Bonn, who wanted more drastic measures. Schiller met them with an opening statement that flatly ruled out revaluation; only the Dutch, participants said later, supported this stand. The French, equally adamant, said they would not devalue unless there were some upward movement in the mark.

*It turned out that one of Schiller's own aides leaked the memo, to discredit Blessing. German politics can be that way.

Mauldin © 1968—The Chicago Sun-Times

'The formula, gentlemen, is to work hard and to lose a war occasionally—but you must pick your enemies carefully'

Tempers wore thin. Fowler, according to one German account, described Bonn's plan to ease the crisis as a "small step," and Schiller retorted: "If the lopping off of one-third of our exports is not seen as a sacrifice, then it is obvious we have quite different concepts of social values." Fowler's conduct, said another German official, was "impudent." A senior German official told The New York Times that Britain's Chancellor of the Exchequer, Roy Jenkins, had been "ill-bred" in talking to Strauss, and that a message from British Prime Minister Harold Wilson had been "uncouth" in its language and political threats.

Such billingsgate is unusual in diplomatic circles, to say the least; but the Germans, holding the whip hand, were clearly enjoying the experience and disposed to rub it in for all it was worth. "The Deutsche mark is the most stable currency in the World," crowed the Frankfurter Allgemeine Zeitung.

Big Guns: Long and bitter, the talks dragged on. Thursday's session lasted until 3 o'clock Friday morning. Roy Jenkins flew home between sessions to keep Harold Wilson posted. François-Xavier Ortoli, the French Finance Minister, conferred regularly with Couve de Murville in Paris by telephone—and Couve, in turn, telephoned de Gaulle at the Elysée Palace almost as often. In Washington, President Johnson received frequent phoned reports from the U.S. delegates at the scene, once reporting gloomily that a blowup seemed possible. By Thursday, in fact, the pressure on France to devalue had risen to the point of blowup. And according to German sources, Ortoli responded by threatening not only to devalue, but to devalue by so much that other currencies would be pulled down in a general debacle. Thoroughly alarmed, the group united: if that happened, they warned, France would be cut off from all credit instead of being helped with $2 billion in new loans. During the 7 p.m. break, Ortoli called de Gaulle himself for instructions—and presumably, French sources said later, de Gaulle approved the principle of devaluation. Negotiations over the details went on for five more hours, and resumed the next morning to work out the precise wording of the official communiqué.

It was only in the bitter aftermath that German officials attached any significance to a detail that seemed only a matter of courtesy at the time. The communiqué took so long to write, they recalled, because Henry Fowler was insisting on including the details of the devaluation deal—and the French didn't want to release the news just then. Apparently, Fowler smelled a rat, but he finally yielded, and the long meeting ended.

It was Charles de Gaulle's 78th birthday, and it seemed his blackest. But de Gaulle sailed unruffled through the ceremonies of state, greeting three new ambassadors to Paris and slicing a colorful birthday cake with Foreign Minister Michel Debré.

But the very next day, de Gaulle proved himself to be—well, none other than de Gaulle. "The draft agreement brought back to Paris by Ortoli," said a high-ranking Gaullist, "was unacceptable to the French Government." But this bland hauteur was going to cost Frenchmen dearly. The austerity measures needed to defend the franc will cut particularly hard in a time when inflation is already rampant, and may well revive union militancy. An effective set of measures to boost exports and curb imports would almost certainly run afoul of Common Market regulations; if de Gaulle persists in defying the rules, it could cripple or even kill the Common Market. "De Gaulle," said one French economist, "prefers to bring the whole of Europe's economies toppling rather than admit he is wrong."

There were other, less sweeping effects. The triumphant Germans were plunged in one stupefied instant into renewed uncertainty. The British, who had used the crisis as a justification to impose harsh new curbs on imports and consumer spending, now faced uncertain prospects of parliamentary approval—even though the British Government thought the measures were desperately needed, crisis or no crisis.

De Gaulle's *non* also deepened the uncertainty over a renewal of speculation on the money markets. Whether or not the markets erupted immediately, the net result of the whole episode was to put the game very nearly back on square one: the mark was not revalued, the franc was not devalued, and that was where the whole business began just a few months ago.

For the moment, at least, the United States seemed comfortably remote from the turmoil. "The real point of what's happened is what hasn't happened," said a prominent academic economist. "A year ago a crisis like this would have spread immediately to the dollar. Now the French troubles have convinced everybody that the dollar looks pretty good, after all." But in the longer run, the dollar could only suffer as the key currency in a monetary system that is racked by periodic crises—and the fact that it was not under attack this time only meant that the target of immediate opportunity was elsewhere.

Monetary officials, confident in their own massive resources and their power to act in concert with friendly nations, tend to discount the power of speculation. "Nobody cares very much whether the speculators will be satisfied," said a U.S. official in an early stage of last week's talks. "They'll have to take what they're given." In the sense of true speculation—hot money looking for quick profits—this disdain is probably warranted. But in times of chronic crisis, the true speculators who start a run are quickly reinforced by an army of sober money managers who seek mainly to protect their funds. One lesson of the past year, in fact, is that containing speculation once it has started is as difficult as stuffing a genie back into the bottle.


UPI

De Gaulle and Debré: A birthday surprise from the general

Inevitably, the latest installment in the monetary crisis brought increased pressure for basic reform of the system. In retrospect, the Bretton Woods structure, which established the principle of parities for the world's currencies pegged to the dollar, had served the world well and laid the groundwork for an unprecedented growth of world prosperity. But this was true only so long as the United States was the towering giant on the world scene and disposed to help out other countries in trouble. In a world of more even competition among nations, the rigid rules were more likely to be enforced to the letter; and one problem with the Bretton Woods rules was that they forced only deficit nations to act to remedy their ills. Today, officials with a less Calvinist viewpoint are arguing that surplus nations—like Germany—share the responsibility to maintain balance. There is also a growing school of thought that rigid parities can work only in an ideal world where national fortunes fluctuate hardly at all. In the real world, these experts say, parities should be allowed to fluctuate in a wider band than the 1 per cent specified by IMF rules. If the franc could float freely to 5 per cent below parity, for example, and the mark could rise by 5 per cent, France could have an effective devaluation of 10 per cent without any of the present turmoil.

Traditionally, bankers and businessmen have objected that such fluctuations would make international business riskier and more costly; in addition, they would raise as many problems as they would solve in the speculative arena. But as the crisis has deepened in recent months, these objections have tended to fade. And in contrast to the Johnson Administration's steadfast opposition to any change in the basic system, Nixon's advisers are privately saying they favor reform and are enthusiastic about wider parity bands. "Frankly, if we have to keep patching up the system in the middle of the night, it means we don't have a very good system," one Nixon man said. Another added: "The real choice is between controls and flexible rates, and I think the business community would accept the latter choice."

The Ball Game: This attitude may well change drastically as the Nixon men come to grips with the realities of power, but it serves to encourage talk of a new Bretton Woods—which may be forced on the world in any case. The problem, as New York economist Sidney Rolfe put it, is that "you have to have a consensus before you meet. Otherwise everybody stands around and can't agree, just like the Depression conference of 1931. That one broke up in confusion, the British went on a floating rate, and that was the ball game."

In such an emergency, though, there is one reliable escape—a rise in the price of gold, which could buy time measured in years or decades rather than months. "It would be wasteful and very embarrassing to the U.S.," said one of the Nixon advisers, "but under some circumstances it could be a lesser evil than getting ourselves swaddled in controls."

In Geneva, some traders who believe Charles de Gaulle's ultimate aim is to raise the gold price figured he hadn't done at all badly last week. But if that is his goal, he is gambling for the highest stakes in history—nothing less than the welfare of France, the future of the Common Market, the fate of the monetary system and the prosperity of the Western world.

The Cost of Being French

"Here in Geneva," sighed a French businessman one day last week, "you could starve to death with French money in your pocket. The Swiss are very quick to react at times like this." In Germany, the French franc carried about as much clout across the counter as a Confederate dollar. In Italy, worried French tourists had to scurry from bank to bank before they found one willing to exchange their francs for lire. Nobody wanted to be holding a franc if it was going to be devalued.

And yet in Paris, at the very heart of the world monetary crisis, business was brisk in the streets and cafés outside the padlocked French Bourse. "Look here," a stocky French speculator grinned at an American reporter, "the only gold around here today is in my teeth." But that was all part of the put-on; with the Bourse closed, along with most of Europe's stock and money markets, the speculators simply moved outdoors. They traded currency and gold quotations across the fender of a red Renault parked at the curb of the crowded Rue Notre Dame des Victoires, or made deals above the smoky hubbub of the Stock Exchange Cellar bar and restaurant. There was good reason for the prevalent mood of camaraderie among the speculators; for the past few weeks of monetary uncertainty, some of them had been earning up to $5,000 a day in commissions.

Doubt: But in the rest of Western Europe last week, commercial life was laced with uncertainty and distrust of the French franc, the British pound and the U.S. dollar, in that order. At Orly and Le Bourget airports in Paris, the purchase of foreign currency was restricted to travelers who could produce their plane tickets, and was limited in most cases to $20 a person. In Brussels, where hoteliers are notoriously hard-nosed about money matters, all of the leading hotels arbitrarily devalued all foreign currencies by about 15 per cent, whether francs, pounds, dollars or even Deutsche marks. An official at the First National City Bank branch in Frankfurt summed up his bank's policy: "We won't exchange large sums of money, but we will help someone pay his hotel bill—even a Frenchman. But the Frenchman has to suffer a 15 per cent discount. That's the cost of being French during these hard days." French businessmen attending an international textile show in Frankfurt learned the same expensive lesson. "We started the show extremely confident; our home office told us there would be no devaluation of the franc," one complained. "Now, some German clients are asking for reduced prices, and we have to make all of our contracts in Deutsche marks."

The French seemed so preoccupied with their problem that they were overlooking one place where they had been able to unload their weak francs for strong Deutsche marks—the big gambling casino at Baden-Baden in Germany. Last week, the casino was strangely quiet. "We can't figure out what happened," said one mystified casino official. "Because of the crisis, we set a $125 limit for most guests. But for our French guests—the ones we know well—we'd be willing to exchange several times that. But for the last few nights, we haven't even had to meet the lower limit."

Lasting: Actually, the casino's charitable attitude toward the French was unique among Germans, many of whom blamed General de Gaulle for causing the monetary crisis in the first place. As one German banker put it: "The mood here is that we should not have to pay for de Gaulle's troubles. Our people say the hell with de Gaulle." But then bitterness worked both ways. In London, the Evening Standard responded to anti-German feeling there by headlining one story about Germany's refusal to revalue its currency: GERMANS BARK 'NEIN'. And the Financial Times's influential Samuel Brittan spoke for many responsible European leaders when he wrote late last week: "The bitterness of the past couple of days will color political as well as economic relations in the West for a long time to come."

As it turned out, about the only country drawing any satisfaction from the free world's problem was Communist China. In a dispatch from Peking at the weekend, the New China news agency crowed: "This was the latest development in the worst financial crisis in 40 years. All this shows that the monetary system of the capitalist world is sick to the core and on the verge of collapse."

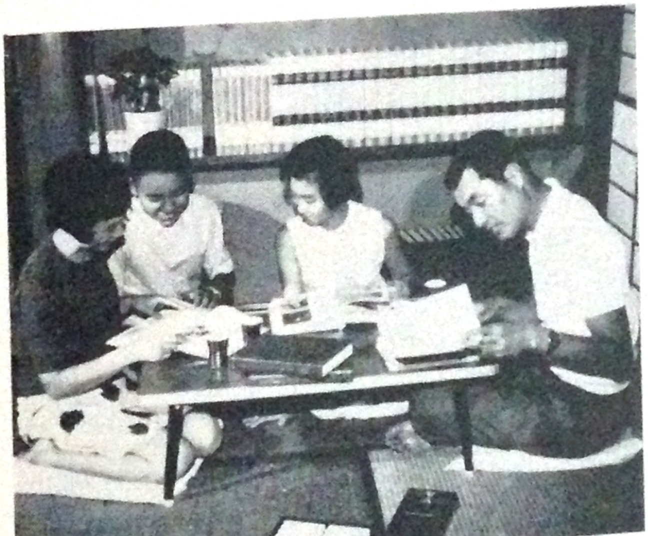
JAPAN:

Hail, Britannica

In a crowded conference room in a Tokyo office building, 250 neatly dressed men and women rose with military precision and began to sing:

World's treasure, Britannica.
Light of today, light of tomorrow.
Let's all spread our treasure
Throughout the nation . . .

As soon as the song ended, they poured across the hall to rows of cubicles with telephones and started making their day's appointments. Then, as they headed out, one after another paused at a huge mirror near the elevator for a last-minute check on his or her appearance. Thus, on a typical morning last week, began another day of the Encyclopaedia Britannica's booming campaign to sell its 24-volume sets, at 230,000 yen ($639)* a set, to the people of Japan.



Newsweek photos by Bernard Krisher

Gibney (above) and customers: For Japan, a 24-volume status symbol

The participants in the 7:30 a.m. ritual were the Tokyo representatives of a nationwide sales staff that has swelled in recent years to 500 full-time salesmen who work on commission—often earning more than $10,000 a year—and another 500 who work part-time. Operating out of 32 offices throughout Japan, plus branches in Okinawa and South Korea,

*The sharply lower basic U.S. price is $459. The difference is brought about by shipping costs from Chicago to Japan, also the fact that such supplementary materials as a twelve-volume Britannica "Perspective" series, a great books package, a dictionary and a Bible are included.