most difficult and challenging problems in the field of economic policy and international economic cooperation.

The Franc-Deutschemark Crisis, November 1968

In May and June 1968, the French franc came under pressure in the exchange markets as a result of an outbreak of strikes and student disorders on a large scale. Settlements in labor negotiations were estimated to increase wage rates within a range of 10 to 14 percent, or about double the previously anticipated annual rise in money wages. The shock of the May-June events was reflected in a heavy outflow of capital from France; French reserve of gold and foreign exchange were drawn down from $6 billion at the end of April to $4 billion at the end of November.

In September, the pressure on the franc was accentuated by rumors of a possible appreciation of the Deutschemark. These rumors subsided soon but resumed in early November when liquid funds again began to flow into Germany in large volume. The speculation was encouraged by the continuation of a very large German trade surplus and by the market's belief that the Federal Republic of Germany could not maintain sufficient long-term capital outflows to offset its current account surplus.

The market situation worsened at mid-November. The major European exchange markets were closed on November 20, and a special meeting of the Ministers and Governors of the Group of Ten was called for November 20 in Bonn. Secretary Fowler, who had attended the North Atlantic Treaty Organization Ministerial Meeting in Brussels and was paying a series of farewell visits to his colleagues in Europe, took an active role in the calling of the meeting .

The primary objective of the United States, supported by the other Ministers, was to obtain assurances that the pressures of the crisis would not result in any excessive exchange rate adjustment that would seriously undervalue any currency and introduce the threat of cumulative or competitive devaluations. The United States set forth the basic principle that exchange rate changes of major financial powers should not take place without consultation between the governments of these major countries.

The decisions associated with the November meeting did not in fact result in any exchange rate adjustments. The German authorities proposed, as their principal contribution to reducing the German surplus, an adjustment in border taxes having effects somewhat similar to a revaluation of the Deutschemark but applicable only to trade in physical goods. They estimated that this measure would reduce Germany's annual trade surplus in 1969 by about one-fourth. The French decision, announced on November 23, was to maintain the value of the