New York today "Gold will go to $200 per ounce. Kuwait and the Persian Gulf States are aggressively getting into gold. The only thing stopping the Saudis and others from moving more aggressively toward a gold-based international monetary system is the threat of economic and military retaliation by the United States." Essentially, the same sentiment was expressed by a major gold bullion trading house in New York today.

Whatever the pace of motion toward an international monetary system backed by gold, the weakness of paper currencies in general, and the lack of confidence in the U.S. dollar in particular, can only mean that gold will continue up and up. Even today's IMF decision to auction its gold every month instead of every six weeks starting next March will hardly affect the market's bullishness.

Post-Election Stock Market Rise In Japan

INTERNATIONAL STOCKS

Dec. 9 (NSIPS) — The Tokyo stock market registered its strongest rise of the year this week with the Tokyo Dow climbing 5% to 4,782 yen. The Dec. 5 election, market analysts agree, was the overwhelming reason for the jump; the ruling Liberal Democratic Party (LDP) made such a weak showing that while it will retain a majority with the support of independents, Prime Minister Miki will be forced to step down. The sucession of his arch-rival, Takeo Fukuda, is assured, they said.

However, the underlying real economic factors show this trend to be short-lived and speculative.

Fukuda's much-touted rise bouyed the market primarily because of his stated plans for reflating the lagging Japanese economy, and his intention to quash anti-American independent industrialist factions within the LDP, reunifying the party under strong pro-Washington leadership, spokemen for the Tokyo financial community said.

The government and the Bank of Japan are already planning a second "package of fiscal and monetary measures" of public works and corporate investment programs which will require an additional 200 billion yen in government bond issues off the General Account fiscal 1976-77 budget, the *Japan Economic Journal* reported Dec. 7.

Here's To Inflation

The measures will have to be taken, according to the journal because the $5.4 billion reflation package of mid-November failed to stimulate the Japanese economy; strong pressure is being applied on Japan by the International Monetary Fund and the Organization for Economic Cooperation and Development, the economic arm of NATO for a revaluation of the yen which would destroy Japan's export economy but would establish the yen as a buffer currency for the dollar. Finance Minister Ohira was quoted as saying that Japan would have to somehow step up imports or risk "trade war" with the distraught European Economic Communities, whose own economic woes preclude continued high levels of Japanese exports there.

The second reflation package will be a .5 per cent cut in the discount rate. New York financial sources pointed out that, on the whole, this sort of pressure, obviously emanating from Washington, would not have met with such cooperation from Prime Minister Miki.

The market also apparently believes that Fukuda will be able to halt moves within the Japanese industrial community to set up more independent relations with the developing countries, particularly the Organization of Petroleum Exporting Countries, and the Comecon. This "independent resources faction," led by Sohei Nakayama, counselor of the Industrial Bank of Japan, and including many top steel and heavy industrial magnates related to the Industrial Bank group, was described in a controversial series of articles in the magazines *Bungei Shunju* and *Chuo Koron* this summer as opposing the Rockefeller financial and oil interests control over the Japanese economy. The "independents" efforts in particular to gain security of oil supplies from the Exxon and U.S. multinationals, the articles alleged, were the real cause of the Lockheed scandals which have discredited many "faction" members as well as Miki, their spokesman. Fukuda has from the beginning taken advantage of the scandals to oppose Miki at every turn and it is widely acknowledged that his coming rise to power is due to the Lockheed affair. Now "only Fukuda will be able to unify the party," one Tokyo analyst said.

But Prospects Dim

In the general advance of the Tokyo market this week, the stocks making the favorable showing were, as would be expected, the cyclicals which will benefit from the reflation program, as well as the export sector industries. Matsushita Communications, TDK, Pioneer, Sanyo Electric, Toyota Motor, Nippon Electric, Dai Nippon Printing, and Fuji Photo Film all showed strong gains, especially on investment trust buying.

But not only is the prospect for any real boost from the reflation program — other than to the consumer price index — thin, but the export sector cannot possibly maintain its current position and in fact will suffer in the first quarter of 1977 from the general world recession,

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especially in Western Europe.

Although much of the excitement in the Tokyo market has been due to the impressive rate of growth of corporate profits — pre-tax profits rose some 55 per cent during the third quarter — a Dec. 7 suvey of 100 industrials by the *Japan Economic Journal* found that "no optimism can be warranted." The profit hikes, over dismal base rates to begin with, are by far due to "fat cutting" — debt repayment and thus lower interest charges, cessation of capital investment, workforce reduction, and price increases — rather than actual sales volume. Some 60 per cent of the third quarter rise in the rate of increase of the ratio of pre-tax profit to sales, the journal survey found, was accounted for by declining debt service payments. Indicative of the "fat cutting" approach is Nippon Steel which announced this week that it will cut its fiscal 1977 capital expenditures by 40 per cent to 180 billion yen, after a cut in fiscal 1976 expenditures to 280 billion yen from 295 billion yen in fiscal 1975. Overall, plant and equipment investment in the first half of the accounting period this year declined for major corporations by some 56 billion yen vis a vis last year.

Similarly, many firms have attributed over 60 per cent of their profit increase to a rise in prices, rather than in sales volume, the *Japan Economic Journal* reported. Furthermore, inventories are being reduced such that inventory turn-over dropped precipitously. The number of workers in the companies surveyed dropped from 1,179,000 to 1,171,000 during the third quarter, which usually has the year's highest hiring rate.

World Trade Contracts; IMF Demands Renewed Consumption Cuts

WORLD TRADE

Dec. 7 (NSIPS) — International Monetary Fund recommendations for a $12 billion cut in consumption, implemented by Western European nations during August and September have resulted in a contraction of trade attested to by the October-November figures.

This summer's slowdown hit hard at the 25 per cent of European and Japanese goods exported to the Third World and the Comecon countries. The October-November results now show a decline of approximately 50 per cent of the average country's exports to Western Europe itself. West German, Japanese and French exports in October dropped to March levels — a drop of 10 per cent in real terms. New incoming orders for West German industry dropped in October at an annual rate of 36 per cent; import cuts in Western Europe's "second tier" — Britain, Italy, France and Denmark — decisively dampened the overall internal European economy.

New York banks and the International Monetary Fund are not offering Western Europe or Japan trade, expansion, or even quick reflation. Japan, according to Chase Manhattan's economics department, should simply cut its export surplus with the United States in half — and don't concern the U.S. with the critical domestic problems that would arise in this export-oriented nation.

The presently available statistics, moreover, do not reflect the mid-October round of austerity cuts which decreased Italian imports another 20 per cent and froze credit to Great Britain's ailing industry. Western European policymakers are now saying that their efforts to stabilize the dollar through consumption cutbacks since the oil-price hoax of 1973-4 have afforded them no benefits, they cannot tighten the belt another notch.

For the last six months, West Germany and Japan have been the only Western economies with any semblance of a growing economy. Now, these relatively strong export nations are following the rest of Western Europe into deficit.

In the first half of this year, West German exports to the non-oil-producing countries of the Third World fell 6 per cent in real terms to less than 14 per cent of total exports. Deliveries to the Comecon nations dropped 3 per cent due to that sector's heavy indebtedness and politically dictated cutoffs. The percentage exported to the U.S. also fell, leaving only Western Europe to absorb other nations' goods. West German exports now make up 57 per cent of West European total imports — a rise of 8 per cent.

Downward Spiral

But, starting in August with their austerity programs, Britain, Italy, France, Denmark and other West German trading partners began to cut industrial imports, West Germany's mainstay sales. The 1976 summer drought and the Shah of Iran's threat of a 40 per cent oil price increase forced food and oil imports and stockpiling in expectation of a crisis. As a result, Italy had a non-oil trade surplus — exports over imports — of $300 million in October, due to large cuts in industrial imports. The overall trade deficits of Italy, Britain and France nevertheless rose to an aggregate of over $12 billion by October 1976, prompting additional IMF recommendations for consumption cutbacks.

In the same two-month period, the second-tier West European countries, which had undergone large-scale currency devaluations, have experienced double-digit inflation instead of the hoped-for deflation. Raw materials, and thus the wholesale price of manufactured goods in Britain, rose at an annual rate of 36 per cent during October and November; increased import costs