the collapse of spreads mentioned above — and to keep the debt bubble (mortage debt, consumer debt, Third World debt, etc.) going. Reserves supplied to the banking system by the Fed have, potentially, a multiplier effect on the supply of credit to the economy. Since early November, however, loans to commerce and industry have been essentially flat, reflecting a lull in economic activity. Should industrial production grow any faster than the current languid rate, the potential liquidity will be realized in enormous money supply growth, higher prices, and all the evils of run away inflation.

Thus, Manufacturers Hanover weekly *Financial Digest* (Jan. 30) says slow economic growth is fine. The economic recovery is about to enter its fourth year; don't spoil it with overly stimulative policies. "...a tax increase is precisely what is needed." Worries about a takeoff of inflation are overshadowing the recent wave of layoffs in the auto industry, the decision by automakers to scale down their first quarter production levels by 6.8 percent, the fact that American Motors Corp. is looking for a merger partner, and U.S. Steel's decision to cut its dividend. In fact, the report that factory orders climbed 4 percent in December from the previous month was interpreted either as a fluke or as a danger sign!

The warnings about inflation are having a predictable effect on Republicans in Congress. An aide to Sen. Henry Bellmon, ranking Republican on the Senate Budget Committee, which is now reviewing Carter's FY 1979 budget, said that all the Republicans on the committee agree that inflation is the number one problem; worry over the size of the projected budget deficit is one of the constraints that is forcing them to alter their thinking. A number of supporters of the Kemp-Roth "bigger tax cuts for business" tax legislation are now likely to desert it.

Feeding this kind of thinking, the Congressional Budget Committee, under the direction of former Brookings economist Alice Rivlin, is now circulating a report to Congressional offices which demonstrates that many of the assumptions of the Carter budget are overly optimistic — the projected unemployment and inflation rates — and that the tax package works out to be a small tax increase in FY 1979 and a greater one in 1980. Her arithmetic is likely to impell some Republicans to support another Republican tax bill now in the making. Sources reveal that Sens. Danforth and Javits will put a second tax bill on the table in a week's time, which includes Javits' long-standing plan for "anti-inflationary" tax incentives to businesses for rehabilitating old plants in the northeast and midwest.

—Lydia Dittler

Europeans, Saudis, Japanese Keep Pressuring For Stable Dollar

On the eve of the Jan. 31 expiration of the Rambouillet Agreement — whereby central banks agreed for two years not to trade gold among themselves — the leading U.S. trade daily, the *Journal of Commerce*, warned its readers that if the dollar was not stabilized beyond the short-term, the rest of the world would move to gold-linked currency systems without the United States.

GOLD

The editorial, titled "Gold — Gone Today, Here Tomorrow," noted that efforts to "banish gold from the monetary system" had proved futile in the past, and that if this lesson was not heeded, "the rest of the world will begin to look for alternatives, however limited." In particular, the editorial mooted that, given the right circumstances, the Arabs might move into gold bullion.

A related warning was given by the head of Petromin, the Saudi Arabian oil corporation, in an important address to 500 mainly Western European business leaders at a meeting in Davos, Switzerland sponsored by the European Management Forum. The Petromin head, according to reports in the Feb. 1 *Wall Street Journal*, stated that Saudi Arabia "would like to invest a much larger proportion of its reserves in currencies other than the U.S. dollar," and indeed, that "it would be 'desirable' to diversify Saudi reserve holdings so that the dollar share might go as low as 50 percent." Although the Petromin governor was careful to qualify his threat — essentially indicating that the Saudis would prefer to remain with the dollar, given the size of the U.S. economy and the dollar's central role in world trade — his warning was clear. Underlining the Saudis' motivation explicitly, the Petromin head stated, "Our interest doesn't lie in speculation or quick gains, but in the assurance of a stable financial market....instability in the international financial system...(can only be) detrimental to our interests." Interestingly, as the *Wall Street Journal* noted, the Petromin head only made part of his speech public to the journalists present at Davos, for "sensitive political considerations."

More Pressure

Other clear-cut pressures on the U.S. to shape up its economy and give the dollar some much-needed commodity and export backing are:

*The head of Mitsubishi, speaking in San Francisco, suggested that Americans work with the Japanese in joint development projects in Southeast Asia, as a means of relieving pressure on the dollar.

*Otmar Emminger, president of West Germany's central bank, the Bundesbank, in a widely publicized statement in Saarbrücken, West Germany on Feb. 1, "declared that the surplus of dollars in world markets had become not only the key problem of the international monetary system but also a possible obstacle to world economic recovery and to an upswing in the German economy this year," according to the *New York Times* on Feb. 2. As a solution, however, Emminger has been proposing to merely "paper over" the dollar glut — by soaking up the excess dollar liquidity into long-term U.S. Treasury bills or related Government notes to be sold on international markets. In so proposing, Emminger is squarely ignoring the ABCs of sound banking practice, that inflation and excess liquidity must be dealt with by forcing it into channels whereby expanded production will result, thereby giving a hard commodity content to the hitherto bloated paper. Emminger should know better, since the U.S. Labor Party's proposals for an Eximbank solution to the excess dollar liquidity and a related proposal for a gold-linked Luxembourg private development bank are well-known in Bundesbank circles. Indeed, it is no secret that there is a gold faction within his own ministry and that there is a similarly minded grouping within the West German Finance Ministry. It is reported that Mr. Emminger, while not so minded himself, would acquiesce if a "steamroller" developed. Unfortunately, the world has need of leaders now, not tag-alongs.

Nothing Short Of Global Economic Development Will Work

The following analysis was issued on Jan. 21 by Warren Hamerman, U.S. Labor Party National Executive Ctte. member.

Humanist political forces committed to economic development through energy and technology-intensive programs, can usefully recall the profound significance of Charles De Gaulle's repeatedly correct basic economic and strategic policy of emphatically saying *"Non!"* on issues to what became politely referred to after the 1957-58 recession as the "sick man of Europe" — Great Britain. De Gaulle's political-economic orientation is especially timely at this moment, little more than one week before the Rambouillet Agreement against central bank gold transactions expires.

Provided that industrial-development factions in the United States understand and act upon the U.S. Labor Party's proposed interim measures for expanding the Export-Import Bank as a key strategic piece of an overall world economic reorganization, Luxembourg will shortly be thriving as the concentration and centralization center of European gold and money markets, transforming Eurodollar liquidity from the OPEC nations and OECD central banks into the seed crystal of a new world-trading monetary system. The totality of the U.S. Labor Party-proposed package centering around the Eximbank, is designed to create an immediate gold-reserve base — for hard-commodity trading currencies engaged in international capital lending to the developing sector and Comecon — to finance vast amounts of United States and other OECD exports. The economic solution of real growth is to be fueled by nuclear energy development, around a series of developing sector large-scale, capital-intensive economic development projects and technology transfers.

Symptoms

Among many in the United States who describe themselves as policy sympathizers of the U.S. Labor Party's Eximbank proposal, there exists an unmistakeable pattern of silly and dangerous perceptions that it would be better to depoliticize the overall implications of the Luxembourg-Eximbank proposal so as to cleanly, quietly, and less controversially pass it into implementation.

The attitude of some that the U.S. Labor Party proposal is a "beautiful technical solution" is closely associated with the rampant timidity of this nation's leading corporate, banking, and commercial institutions who plan to testify at the upcoming Stevenson hearings on U.S. export policy. Therefore, they protest from the following "shrewd" standpoint: since, some lobbyists reason, we could never defeat the anti-progress potentates already in governmental authority, we will instead push very hard for expanding the Eximbank, and forget about the Luxembourg trading center and other aspects of the proposal; we'll ask for so much that we know the Administration will be forced to negotiate and appease us with some more credits for exports; therefore, if we forget about any grand-scale solutions on the fundamental questions, we at least will benefit from a few "goodies" until overall conditions change.

Yet another symptom of a "neocolonial" outlook emanates from one of the largest industrial manufacturing families in the United States who recently explained their general policy agreement with the U.S. Labor Party proposal as follows: "Our family has had a policy of industrial development for the developing sector for decades. Yes, we know that this British system you talk about is very real, we know how London brokerages for position to collect speculative debt payments from the Third World. But in order to have economic development in the Third World, first you have to have political stability or else your investments might get wiped out through nationalizations. So, after you get a Washington government that is capable of ensuring political stability in the developing sector, then come back to us with this proposal." Furthermore, officials from two of this nation's leading industrially oriented banking institutions have voiced their "reservations" in the form of (1) "I like everything about your proposal—Exim, gold, Luxembourg — except for nuclear energy development, and the Comecon interface," and (2) "Your plan is excellent but it will never happen because the nation isn't educated enough on economics, but maybe the next generation will adopt it."

What overall pure cowardice among otherwise relatively moral and competent people!

There is, in fact, no purely "technical" way to have an expanded Eximbank, reverse the U.S. trade imbalance, gear up world trade through high-technology economic development, or any other sane, rational policy for the human species until the British-controlled "bubbling" operation of the London-Caribbean-Singapore-Channel