alone, while West Germany's other major utilities company RWE has risen 8.1 per cent since December and 4.5 per cent over the last week. The government-controlled Veba is also Germany's national oil company, and is a member along with the state oil companies of Italy, France, and Belgium, of the "Euro-cartel" which these government companies have set up to challenge the U.S. multinational oil companies for control of the European market.

Mannesmann, the major machinery and engineering firm, did exceptionally well, rising 8.6 per cent in the past month, more than 4.6 per cent in the past week alone. Mannesmann, along with other machinery and engineering companies such as Siemens and AEG which also made gains, has already begun to participate in the new upturn in East-West trade which recently started up after total flatness during the summer and fall of 1976.

It should be noted that in general, the rise of most stocks took place virtually entirely within the past week, after a month of real doldrums for the Frankfurt bourse.

	(month end) Nov. 30	(closed Friday) Thursday Dec. 30	Friday Jan. 7	% Change on Week	Month
COMMERZBANK INDEX	725.2	727.4	748.9	+3.0	+3.3
Veba	113.3	117.5	126.8	7.9	11.9
RWE	159.0	164.5	171.9	4.5	8.1
Mannesman	171	177.5	185.7	4.6	8.6
AEG	82.8	82.5	84.7	2.7	2.3
Siemens	256.5	265.5	270.7	2.0	5.6
BASF	157.5	158.8	160.0	0.8	1.6
Bayer	135.5	135.6	141.0	4.0	4.1
Hoechst	137.1	136.0	141.5	4.0	3.2
Volkswagon	135.5	135.5	137.5	1.5	1.5
Daimler Benz	334.3	334.0	337.5	1.1	1.0

World Gold Reserves a Basis For New Credit System

GOLD

Gold has an intrinsic value, measured by the cost to society of the labor-power needed to mine and refine the scarce metal. This intrinsic value justifies, on the most elementary economic criteria, Italy's decision last week to revalue its massive gold stocks to the world market price of $135 an ounce, and motivates the flow of Arab money out of the bankrupt dollar into gold.

Secondly, because both the Soviet sector and Western Europe possess large amounts of gold — over $20 billion and not quite $80 billion at current market prices — this form of monetary reserve is the ideal "bridge" between the socialist and capitalist monetary systems.

Past this , however, the role of gold in the new world economic order is a question of the *political* readiness of countries to extend long-term credit to each other with the objective of raising the rate of *world* development to the maximum. Gold by itself gives us no magic solution.

The Fallacy of "Hard Money"

Specifically, the world is able to expand trade by $300 billion during the first year of operation of an International Development Bank-type monetary system. This is roughly three times the value of all official gold reserves at the market price. This figure of expansion of international trade, which will require long-term trade financing, will escalate geometrically, to the point that the volume of issue of international trade credits will exceed total international gold holdings several hundredfold.

This trade includes the transfer of the means of agricultural development to the Third World, agricultural equipment and machine tools to the Comecon sector, etc., with the purpose of bringing the entire world's population to the highest levels of living standards and skilled productivity reached in the industrial capitalist countries. A decade or more will elapse before most of the recipient-countries will be able to, or properly should, export more goods that they import to "repay" these loans.

Official Gold Holdings Of OECD Countries

1973 (a)

	Value $ Mill.	Volume Mill. Ounces	Volume Metric Tons
U.S.A.	$11,652	275.98	7,822
U.K. (b)	886	20.99	595
Austria	881	20.87	592
Belg.-Luxemb.	1,789	42.37	1,201
Denmark	77	1.82	52
France	4,261	100.92	2,860
Germany	4,966	117.62	3.334
Italy	3,483	82.50	2.338
Netherlands	2,294	54.33	1.540
Norway	41	.97	27
Sweden	244	5.81	165
Switzerland	3,513	83.21	2,358
Canada	927	21.96	622
Japan	891	21.10	598
Finland	35	.83	24
Greece	148	3.51	99
Iceland	1	.02	1
Ireland	18	.43	12
Portugal	1,160	27.48	779
Spain	602	14.26	404
Turkey	151	3.58	101
Australia	311	7.37	209
Total OECD	$38,331 (c)	907.69 (c)	25,733 (c)

(a) December 1973.
(b) September 1973.
(c) Includes U.K. to September.

Converted at $42.22 per ounce of Gold.
Converted at 35,281 ounces = 1 Metric Ton.

Source: International Financial Statistics.

From the monetarist standpoint this would be impossible: the chief concern of monetarism is relative profit drawn on individual loans. From our standpoint, the financier — the governments themselves — takes no profit; the expression of profit on the development-credits is the enhancement of the productivity of labor on a world scale. For the individual, this means expanding the range and cheapening the price of all goods available to him.

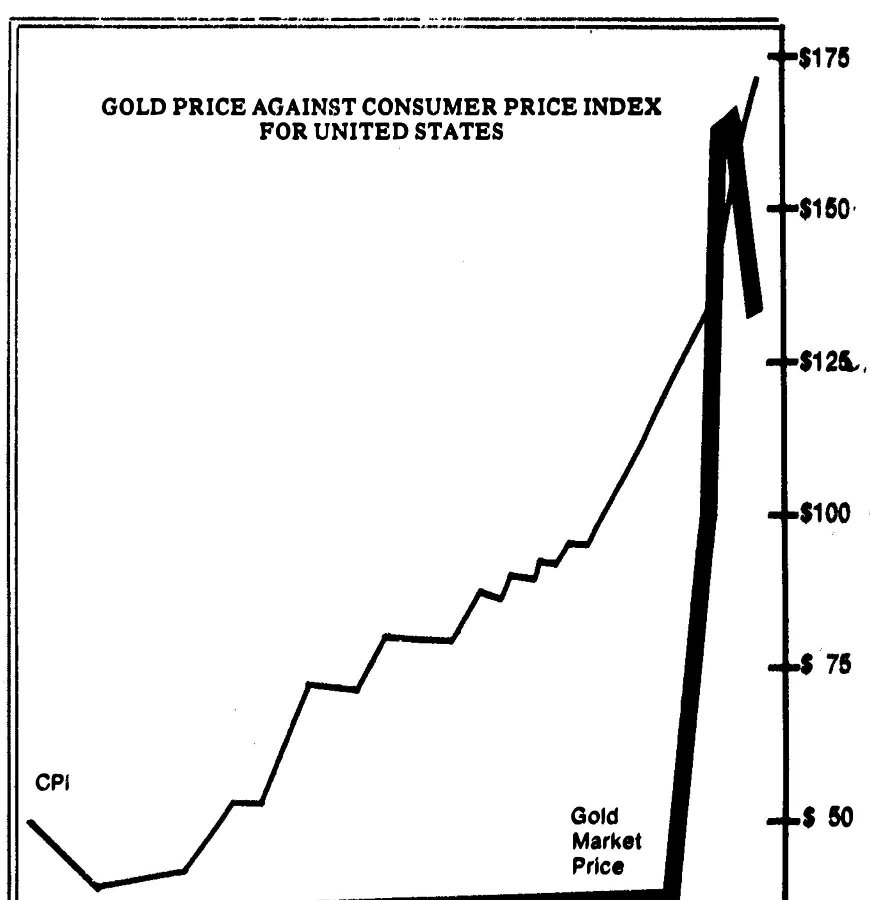
Since current central banks gold holdings are roughly 25 times the annual output of the world's gold mines, there is no way to increase gold reserves at anything like the rate of take-off of international trade and international trade credit. The leading industrial and oil-exporting countries must issue gold-backed loans with what is known, in bankers' jargon, as a "grace period" of 20 years and up. This may vary with different cases — the Soviet sector in particular should turn into a net exporting country within a relatively short period — but gold reserves absolutely cannot be used to "clear" international payments in any automatic fashion. Further, there is no relationship whatsoever between the volume of international credit and the physical volume of world gold reserves; the rate of credit-extension is strictly a byproduct of the world economy's potential for expansion.

Were it not for the prevailing monetarist notion of what a "gold standard" is, few people would have difficulty accepting this. But most conservative views on gold, including most Gaullist pronouncements, identify gold with "hard money," a mere limit to credit expansion, a plain negative view of the horrendous credit expansion under the dollar after it lost its gold backing. The notion boils down to the presumption that if people (or countries) can always exchange paper money for gold, central banks won't be able to issue paper money beyond a limited reserve ratio.

Yardsticks

No such gold standard has ever existed. Since the papal bankers forced the fourteenth-century world to circulate a gold florin at double its gold content, the content of the "gold standard" has depended on who controlled world credit policy.

The supposed heyday of the gold standard during the nineteenth century had the following peculiar origins: imperial Britain made gold and sterling the basis of international trade at a point in history (1821) when the British pound was more bankrupt than it is now. By 1815, after the devastation of the war against Napoleon, the pound had fallen to half its pre-war value measured in gold; the national debt position was several times worse



than it is in Britain now, with one in every ten taxed pounds going to pay debt service. With huge amounts of printing-press pounds available from the Bank of England, the Rothschild and Baring banking groups lent out over 100 million pounds between 1815 and 1825 in speculative foreign loans, an inflationary splurge on the relative scale of the growth of the Eurodollar market during the 1970s.

Amidst the hyperinflation Britain returned to the "gold standard" in 1821, and stayed on it until 1914. Did this have anything to do with the Bank of England's gold reserves? Not really. Britain emerged out of the Napoleonic period with the power to loot the rest of the world. The pound sterling's value was based on American cotton, Russian grain, Indian opium, Chinese tea, and a hideous child labor system at home. But the leading apologist for monetarism, "classical" economist David Ricardo, formulated the prevailing stupid notion of the "gold standard" to justify the stabilization of sterling as a world currency.

Although the financial procedures we propose for the new gold-reserve system send the monetarists into hysterics, they have no right to complain. They have spent six centuries distorting the gold standard in order to loot real value. Nineteenth century British financiers never counted gold bars to determine whether their international loans were sound; they counted gunboats. We do not have to count gold bars either. Our only *fundamental* yardstick for the rate of credit creation is the rate of social surplus.

Mr. Carter's Economic Package

BUSINESS OUTLOOK

Intitial reaction to Mr. Carter's proposed economic stimulation package will likely draw the inference that the President-elect's methods of confusing the electorate, which he relied on during the campaign, have been applied to the business community and the constituencies of the Democratic constituencies of the Democratic congressmen who helped him draft it. The package itself seems designed to do absolutely nothing and please absolutely no-one. The mooted size of direct tax cuts, at $12 billion, is entirely unacceptable to the Keynesian component of the Carter team (and, reportedly, to the United States Chamber of Commerce) The mere doubling of existing public-service jobs from the present level of 300,000 to a projected 725,000 by 1978 comes not even within the range of demands of the neo-fascists Michael Harrington (D-Mass.), and Barbara Jordan, who make up whatever social base Mr. Carter has. In addition, the omission of any investment tax credit from the package will surprise even those who come to expect supreme tactical stupidity from the Carter camp. Nothing Mr. Carter could have done could have been so immediately effective in sabotaging months of careful, artful coddling of business fears about the new Administration. The omission of investment tax credits will give the Wall Street Journal enough raw material for a month-long editorial rampage.

From what is published about the package at deadline, it includes:

a) $12 billion in personal tax component, heavily weighted towards the lower-income side of the scale;

b) a $2 billion increase (through fiscal year 78), or public service jobs spending;

c) a $2 billion increase in revenue sharing;

d) a $2 billion business tax incentive favoring labor-intensive operation, through deductions for payroll tax contributions.

The fangs show through only in the final proposal, which Carter aide Charles Schultze identified as an alternative, and preferable, to an investment tax credit.

But, superficial reactions aside, there are extremely good reasons for Mr. Carter and his advisors to behave stupidly. These reasons are indicated by one anecdote: most Carter economic advisors felt their hearts miss a beat when market opinion concluded earlier this week that the Federal Reserve had decided to tighten interest rates. They are afraid that the bond market, already groaning under an issues calendar half-again as heavy as the previous year's, will panic in the face of a huge projected tax out and consequent spending deficit of the Federal government, leading to an "upward collapse" of interest rates. In fact, what dictates Carter's stupidity, and makes his miserable package explicable, is the underlying condition of the U.S. economy.

As President Ford warned the Carter Administration this week, it is "a very narrow line" that Carter can tread in terms of economic policy, perhaps implying out of a misplaced sense of human decency, that it is possible to even find the line, much less tread it. In fact, the recent experience with the ineffectual 1975 "tax cut" showed the line has long since flown off the upper right quadrant of the Philips Curve graph.

In terms of how this dilemma will affect the "business outlook," it is of course impossible to quantify the key political processes which will ultimately determine the parameters of the U.S. economy. But it is important to bear in mind the most important aspects of the situation.

The U.S. economy has been given a new lease on life by the Saudi Arabian decision at December's OPEC meeting to postpone a significant oil price increase, which is providing Europe the much-needed breathing space to work out a new trade-based, gold-backed monetary system. Third World indebtedness continues to mount, as the attempt to stabilize the debt-ridden Western economies have wreaked havoc with world trade. In this situation, Carter's key economic advisors, including Blumenthal, Cooper and Bergsten, are likely to commit themselves, as the *New York Times* noted yesterday, to attempts at massive austerity-based, bail-out arrangements internationally, attempts which seem increasingly futile in light of West European opposition.