Standard Oil of Indiana, which abstained from the fifth round over objections to the B.N.O.C. 51 percent condition.

Other major participants in the fifth round include Union Oil, Kerr-McGhee, Monsanto, Standard of California, Occidental, Phillips Petroleum, Sun Oil, Getty Oil, and a large number of U.S. "independents."

Meanwhile, developments on the European continent indicated a further weakening of the Aramco market position.

The French Industry Minister D'Ornano announced at a meeting of the Council of Ministers Feb. 8 that French industries should arrange to trade technology exports for oil with Saudi Arabia. Oil industry sources view the D'Ornano initiative as an escalation in the French government's open warfare with foreign companies in France over the domestic oil market. The French government wants the two French state-controlled companies, Elf-Erap and the Compagnie Francaise des Petroles, to dominate the local oil market.

In Italy, officials of Montedison, the half-state, half-private sector petrochemicals giant, announced they had contracted with the Saudi state oil company Petromin for a "substantial" volume of direct sales. The announcement occurred during a trip to Saudi Arabia by the chief executive of Italy's national oil company ENI, indicating the deal was arranged at a high level of the Italian state sector. Italy now receives 10 percent of its total oil imports through direct deals with the Saudis, bypassing the Aramco consortium.

There are strong indications that oil industry maneuvers against Exxon's market share in Western Europe are related to a powerful behind-the-scenes support operation for Saudi Arabian Sheikh Yamani's plans to place the Aramco consortium under state controls. Centering on British Petroleum, a working alliance of European and U.S. oil and construction firms is trying to counteract the intense pressure on Yamani from the Carter Administration to leave Aramco in place.

In the context of negotiations to nationalize Aramco, long-standing attempts by non-consortium U.S. companies to bypass Aramco and deal directly with the Saudis have taken on fresh importance. Previous attempts by crude-short U.S. companies, notably Ashland, to gain direct access to Saudi crude, were spurned. But some industry insiders believe the Saudis may now use numerous U.S. offers to bypass Exxon, Texaco and Mobil as a means of buying political leverage in the United States, at Aramco's expense. Combined with the contraction of Exxon's market share in Europe as European oil-for-technology agreements come on line, a Saudi-American effort to undercut Exxon and its partners in their home market would shatter the Exxon cartel's world petroleum market dominance for the first time during this century.

U. S. Asks For Dollar Devaluation

FOREIGN EXCHANGE

Carter campaign advisor Lawrence Klein, a Wharton School of Finance professor, answered the question of what the Carter Administration would do after the West German and Japanese rebuff to its reflation proposals, in Congressional testimony Feb. 9. Klein, whose testimony was given priority coverage in financial news media, called for a ten percent revaluation of the deutschemark and yen with respect to the U.S. dollar.

Although Klein spoke in no official capacity, West German and Japanese central bank officials treated his views as a quasi-governmental sally from Washington. What, Japan central bank governor Morinaga asked in a press statement released Feb. 10, could Lawrence Klein have in mind, since the world monetary system is now subject to freely-floating exchange rates? Morinaga stated emphatically that Japan would under no circumstances intervene to strengthen the yen. Nonetheless, the yen rose from 289 to 285 to the dollar over the week's trading, which traders attribute to the Klein testimony.

In a press statement Thursday, West German Bundesbank vice-president Otmar Emminger warned that West Germany would stick to a "clean float" policy, despite the 14 percent appreciation of the deutschemark during 1976 and resulting potential harm to West German exports. In a commentary Friday, the leading West German business daily *Handelsblatt* cited the Klein proposals and warned that Carter "wants a fundamental economic policy change," and "elimination of West Germany's and Japan's trade surpluses."

This international fluff over an obscure remark by an individual outside of government could not be explained except by reference to an exceptional background situation. "If the United States stimulates alone, by passing out $50 bills to everyone and gunning the money supply, we might simply export the expansion. Americans will buy 'undervalued' Japanese and German goods, thus putting foreigners to work, until the expansion fizzles out. We'll be left with a huge trade deficit, a plummeting dollar and double-digit inflation. President Carter wouldn't like that."

The *Wall Street Journal*'s commentary Monday on the Carter administration's proposals that Western Europe and Japan reflate in tandem with the United States —

LEADING CURRENCIES vs. U.S. DOLLAR

	Thurs., Feb. 3	Per cent Change vs. U.S. Dollar	Thurs., Feb. 10
Deutsche Mark	.4129	+ .6	.4154
French Franc	.2009	+ .1	.2012
Swiss Franc	.3974	.0	.3973
British Pound	1.7150	.0	1.7160
Japanese Yen	.003471	+1.0	.003503

quoted above — is an accurate reflection of the current views at the Carter Treasury. Ignoring the effects to the U.S. economy of the bad winter weather, the 1978 fiscal year budget deficit of the Federal government will range above $85 billion (including off-budget financing) presuming that the Carter reflation package goes through in its present form. At the same time the U.S. government plans a record deficit, the investors who have made the largest contribution to financing the deficit since the 1973-74 downturn, especially commercial banks and corporations, are no longer in the market for Treasury paper. Foreign investors are more than hesitant to come into the market.

This situation casts a poor reflection on the Fed's injection of $1.2 billion in permanent reserves to the banking system during January. The slow rate of growth of money supply during the last four weeks, which most analysts attribute to the dislocation of the bad weather, does not reflect the inflationary potential of the deficit. picture alone. But possibly even more significant is the adminstration's attitude towards the problem of international indebtedness, presented at a press briefing Thursday, Feb. 10 by Treasury Assistant Secretary for International Affairs C. Fred Bergsten. Bergsten announced that the United States would attempt to provide large amounts of additional "development aid" to Third World countries who now owe possibly $300 billion to other governments, official institutions and private banks. The Carter Administration's motive is to prevent the debt structure from collapsing. Indeed, Morgan Guaranty Trust Company's January statement on the need for world reflation cited the maldistribution of payments deficits, and private banks' inability to continue to carry the 60 per cent of the burden they assumed during 1976, as their primary motive.

Given the continuing deterioration of the Third World's deficit position — developing countries are expected to run $330 billion in the red this year — dollar credit will have to be stretched to meet the gap. Bergsten hinted that U.S. government resources, i.e. money creation, will be put to the task, Congress willing.

Supporters of this view include Bank of England Governor Gordon Richardson (who does not necessarily reflect the views of the Callaghan government). Richardson told an international banking seminar Wednesday, "In the absence of an unprecedented expansion of world trade we must begin now to establish the institutional framework within the U.s., Europe, and the OPEC, to handle both the refinancing of accumulated debt and new credit requirements of developing countries."

This policy spells extreme dollar weakness. Lawrence Klein has been widely interpreted to propose that the West Germans and Japanese pre-discount this weakness at the official level by agreeing to revaluation. As noted, they have refused this Carter administration fallback option, virtually point-blank.

Late this week the dollar showed across-the-board weakness in Europe. Contrary to exaggerated reports of its demise, the French franc remained stable against the dollar only through large central bank dollar purchases. The French monetary authorities prefer to accumulate foreign exchange rather than let the currency appreciate, despite the Barre government's desire for a strong franc, due to fear that the market may push the franc down again quickly.

Carter's Confidence Game Is Up

BUSINESS OUTLOOK

The ludicrous debate in Congress over the Carter administration's economic stimulus program hasn't exactly allayed fears of inflation or boosted business confidence in Carter or his program. The hint by Chief Economic Advisor Charles Schultze in testimony before the Joint Economic Committee Jan. 31 that the Administration might support a bigger stimulus after it surveys the economic damage left by the natural gas crisis sent shivers through the business community from which no one has recovered. The graph of business confidence in the new president to date is reflected in the movement of the Dow Jones average since the beginning of the year: steady erosion with no sign of let up. So far this year the stock market has lost about 70 points or a solid 7 per cent.

One of the most notable recent signs of discontent was the statement of the Business Roundtable on Feb. 9 calling for an end to the growth of government interference in the economy. Such a statement was not expected from the exclusive group of 175 top corporate executives; however, their present chairman is Irving Shapiro, head of DuPont and at last count an avid Carter supporter. Either Shapiro couldn't persuade his members to look favorably on the new president or he is a defector from the Carter camp himself. The Business Roundtable came out against the stimulus package, against anything resembling national economic planning, against divestiture of the oil companies, and in favor of development of all available energy sources. Such stubborn ideological adherence to "free enterprise" is one of the major problems the Carter Administration is up against in trying to impose its Fabian program; the gentlemen at the Business Roundtable and other such business forums rightly see another FDR lurking behind the Carter grin.

The Wall Street Journal ran a devastating attack Feb. 11 on the keystone of Carter's economic program — energy conservation. "Economic growth means using the world's resources of minerals, fuels, capital, manpower and land. There can be no return to Walden Pond without mass poverty." The editorial went so far as to attack by name the Rockefeller zero-growth policy underlying the Carter program — before lapsing into a final paragraph on restoring free market pricing as the