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 solution to our energy problems.

Inflationary fears are being fed by the prospect of Carter's $31 billion stimulus package and the possibility that it may be expanded to offset the effects of the cold weather. The Senate Public Works Committee is considering a bill similar to one passed by a House Public Works subcommittee Feb. 8, that would authorize a full $4 billion for local construction projects this fiscal year, instead of spreading the authorizations out over this year and next. At a meeting of the Senate committee Feb. 8, chairman Jennings Randolf (D-W.Va.) said, "We have a feeling that the Administration is favorable to the $4 billion and compressing it into a shorter period of time."

The movement of all interest rates continues up, as investors discount the inevitable higher rates of inflation later this year. Staring everyone in the face is the prospect of a whopping Federal deficit, which will be the only visible achievement of the Carter stimulus program. "No American, German, or Japanese businessman will expand just because debt is floated to finance the scattering of $50 bills," the Wall Street Journal wrote summarily at the beginning of last week.

With the likes of C. Fred Bergsten, the mod Brookings economist, now floating their reflation schemes from inside the U.S. government, businessmen here and in Europe and Japan have have good reason to be terrified about inflation. Given West German recalcitrance about reflating along with the U.S., the U.S. is left to refinance the dollar empire alone — a reality implicitly recognized by Carter economist Lawrence Klein when he shifted his line away from imploring West Germans to reflate to imploring them to upvalue their currency by 10 per cent — to cushion an inflationary blowout of the dollar (see Foreign Exchange column). The implications for the U.S. economy are a huge trade deficit, a plummeting dollar, and double-digit inflation.