ready a couple of percentage points up against the DM on the previous New York close. A sort of whiplash effect would force banks to close their positions, taking a large loss, and the very fact that they were doing so would force the dollar still higher.

Now there is no point in trying to mount such an operation unless the market is about to turn anyway. And in any case the US authorities may be so disenchanted by currency support that they do not want to try. But the point about markets — all markets — is that the moment when everything looks in utter devastation is the moment when the market is about to turn. The dollar may be lower still against the Deutschemark in, say, a year's time. But before then there will be a rebound. The question is, when that happens, will the central banks be there? Have they the guts?

U.S. Economy Set Up For The Wringer

As the Rothschild-owned *Economist* and other City of London publications were first to predict, the U.S. economy is headed for trouble. The cosmetic effects of government spending on the Gross National Product (GNP) are about to wear off, rising interest rates will shortly threaten the auto and housing markets — the other two props to the economy, and the sharp devaluation of the dollar in recent weeks may put to an abrupt end European central bank purchases of U.S. Treasury securities, the main source of financing for the huge federal deficit this year.

British agents of influence can be counted on to make the most of the crisis. In recent days they have already started the attack, as can be seen in the implementation of Treasury Undersecretary Anthony Solomon's plan to wreck the U.S. steel industry, moves by the Rockefeller Brothers Fund-created Council on Municipal Performance and Sen. Harrison Williams (D-N.J.) to force greater "disclosure" of the real state of municipal finances, and the *New York Time's* resurrection of the scandal about the relations between commercial banks and their regulators — a scandal which is designed to launch a banking reorganization, centralizing all credit decisions under British-oriented executive agencies.

Steel Is The Model

Under the direction of Undersecretary Solomon, a protégé of Anglophile economist John Kenneth Galbraith, the steel industry is fast becoming the model for the Schachtian reorganization of the entire U.S. economy. Solomon's plan for the steel industry, which was worked out in collaboration with executives of leading steel companies, involves limiting foreign imports, providing financial "aid" to failing steel companies to enable them to consolidate their operations, and putting an artificial prop under prices. No sooner had Solomon released his plan than Wheeling-Pittsburgh, Bethlehem, and Inland announced their intention to raise steel prices between 5.4 and 7 percent early next year.

Wheeling-Pittsburgh, the steel company closest to bankruptcy of all, is first in line to secure some of Solomon's promised federal loan guarantees — funds that would merely allow the company to meet Pennsylvania environmental standards and stay open long enough to repay its debt to Chemical Bank and its other creditors. While the negotiations with the government go on, Chemical and the other banks have agreed to relax the provisions in the loan agreement relating to networth and working capital — probably on the expectation that the loan guarantees will enable the company to stay in business a while longer.

Youngstown-based groups, including the Western Reserve Economic Development Agency, headed by leading steel communities organizer William Sullivan, have been duped into offering to buy and reopen the shutdown Campbell Works of Youngstown Sheet and Tube on the basis of community and worker savings.

Allegheny Ludlum, the financially troubled specialty steelmaker, which has been closing down unprofitable steel operations and "diversifying," has just agreed to buy for cash a 51.7 percent or $42.2 million stake in Wilkinson Match, Ltd., London.

Interest Rates Threaten Auto, Housing

The collapse of the dollar, meanwhile, is feeding into the complex of factors which are putting upward pressure on interest rates and threatening the economy. In the last week rates in the bond market have begun to climb, in part on expectations that the Federal Reserve will have to further raise rates next year to smooth the collapse of the dollar.

A feature article in the *Wall Street Journal* Dec. 21, "Demand for Credit — Federal and Private — Puts Pressure on Rates," sums up the fears of the market that former Treasury Secretary William Simon's theory of the government "crowding out" corporations on the credit markets is about to come true, if three years too late. The *Journal* quotes numerous economists who warn that corporations will be in competition for credit with the government next year, pushing up short-term interest rates, now hovering around 6.5 percent, to over 8 percent by midyear. Such a marginal shift could pull the rug from under the auto and housing markets.

While interest rates soar upwards the economy will be going nowhere. A study by the Conference Board, a business research group, released Dec. 20, shows that in the first quarter of next year government "stimulus" programs such as CETA public service jobs will be having no effect on GNP at all. Government spending will at least be offset by higher Social Security and unemployment insurance taxes.

But that doesn't mean that the federal deficit will be any less. Projections of the Treasury's cash needs in the first quarter range from $17 to $20 billion, far exceeding this year's levels. The European central banks have been the single largest investor in U.S. Treasury securities this year, and have in effect been financing the U.S. federal deficit with the dollars they have been forced to sop up to defend the currency. If they stop purchasing at the rate they have been, there will be that much more upward pressure on interest rates in the U.S. credit markets.

Additionally, Donald Maude at A.G. Becker points out that a huge amount of government securities will be maturing next year — 200 percent more than in 1975. Almost half of those maturing securities or $23 billion are held by commercial banks and other financial institutions, which have been liquidating securities in recent months to get cash to lend to industry and other borrowers. It is likely, therefore, that the banks won't roll over the maturing securities, which means even more trouble for the credit markets.

The Carter Tax Package

In the face of this impending disaster, the Carter Administration on Dec. 20 released its proposal for $25 billion in tax cuts for individuals and businesses, heavily weighted towards individuals in the lower income brackets. The tax package will come too late to even postpone the bust of the economy, and the cuts will hardly offset the large increases in Social Security and other taxes slated for next year. The Adminstration's tax proposals, moreover, are entirely in the wrong direction: they discriminate against exports and foreign investment and will "redistribute" wealth from private industry to various government slush funds:

An aide to Council on Economic Advisors head Charles Schultze, the former Brookings Institution economist, confirmed Dec. 20 that the Administration has no intention of implementing the cuts before Oct. 1, 1978, the beginning of the next fiscal year. As the *Wall Street Journal* wrote Dec. 22: "the Carter proposal would take effect Oct. 1, so workers would have a chance to savor the "cut" for a month before the congressional elections."

In an op ed in the same issue of the *Journal*, former chairman of the CEA Walter Heller wrote up to $20 billion of tax cuts are needed just to neutralize other tax increases slated for next year — including an $12 billion increase in Social security taxes and a $4.5 billion increase in employment insurance taxes by 1979, an $18 billion tax increase as inflation pumps income into higher brackets, and an unknown amount of energy taxes.

In the name of "closing tax loopholes," the package will force multinational corporations to repatriate all earnings so that they can be taxes at the domestic tax rate. Presently they do not pay domestic taxes on reinvested foreign earnings.

Carter plans to live up to his campaign promise and phase out DISC (domestic international sales corporation) over the next few years. Under this Commerce Department program corporations which form an export entity or DISC have received a 50 percent tax deferral on its earnings. In 1977 $1 billion in tax deferrals generated over $10 billion in exports, according to the Commerce Department (this comparison is arrived at by comparing the exports of corporations which have formed DISCs and those which have not). Suddenly, this year the Treasury Department found that the methodology by which it had been evaluating the success of the program in recent years was faulty, and that next year DISC will have no effect on boosting exports!

Turn From London To Luxembourg

Diverse signals on the diplomatic, banking, and monetary newsfronts this week point toward renewed Arab, U.S. industrialist, and European interest in the Jürgen Ponto plan — the establishment of Luxembourg as the new international banking center to replace the decrepit City of London on both the international lending and the pivotal gold market levels. "Everyone in Europe I met is talking about it," said a New York commercial banker recently returned from the continent. In London, meanwhile, the Wilson Commission held alarmed hearings last week on the eventuality of the Luxembourg option emerging in full force. (see next article)

The reasons for the international investment community's disenchantment with the City, particularly with the London gold market which has already lost nearly 80 percent of world gold sales to Zurich, was delineated in *Barron's* magazine by Swiss investment manager Nicola Krul, lately of Lombard Odie and now with the Crédit Commercial de France. Krul said he was bitterly "disappointed" with the U.S.'s inflationary monetary policy, and even more disturbed about the speculative London government debt market. The resultant decline in U.S. and British industrial activity and inflation has rendered the two currencies unfit for especially Arab investment — Krul's main clients. "The pound was a risk investment then and its a risk investment now," he said. Krul concluded by saying he now recommends Arabs to invest in equity — not government debt — of productive continental European and Japanese corporations.

Several events this week pointed to the use of the Luxembourg Ponto plan to move world monetary operations out of London. First, the Luxembourg government suddenly established diplomatic relations with Saudi Arabia, and recognized the Palestine Liberation Organization. The later action was negotiated by the PLO representative, Mr. Dayani, who is responsible for current rapproachment efforts by the PLO and with the peace negotiations of Egypt's Sadat and Israel's Begin.

Second, of course, London's Wilson Commission testimony on the Luxembourg menace. Never before has the British Bankers Association warned that Luxembourg could actually supersede London as a center of international banking and that the City's position is "precarious."

When asked if the sudden Luxembourg diplomacy meant Arab interest in Luxembourg as a new gold center, a New York banking expert on Italy just returned from Europe insisted it was common talk.

The Ponto Plan and the IMF Restrictions

It has been widely reported since the assassination last