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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

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August of Jürgen Ponto, chief executive officer of the Dresdner Bank, West Germany's second largest, that a major reason for his murder by the British Intelligence coordinated Baader-Meinhof gang was his plan to turn Luxembourg into a new international gold center controlled by West German and French industry-oriented banks. Luxembourg is already rivaling London as a center for the $20 billion annual floatation of Eurobonds for international corporations due to the strong West German, Belgian, and Swiss bank presence there. Soon after Ponto's death, the Luxembourg government announced that as of Jan. 1 it is removing Value Added Taxes on gold trading; the South African *Rand Daily Mail* reported this to be the initiative of Dresdner Bank.

Simultaneously, the French-inspired abolition of current International Monetary Fund (IMF) restrictions on the trading of gold by central banks is set for Jan. 1. This will mean that the current "official" gold price of $42 per ounce will disappear and central banks will value gold
ounce. Slowly but surely nations trading in gold between governments will become those with stabilized currencies and trade — gold will be remonetized, and the flight from sterling will really begin. The West German central bank is reliably reported to be secretly in favor of the arrangement.

The Texas Connection

American involvement in these maneuvers is typified by the announcement today that Ghaith R. Pharaon, the Saudi Arabian business partner of Texan John Connally in the Houston Bank, is purchasing Bert Lance's shares in the National Bank of Georgia. Lance, Connally, and other "Atlanta mafia" and sunbelt industrialists associated with Nixon's administration have been eyeing an alliance with the Arabs and Europeans around monetary and industrial policy.

Asked if Pharaon's moves could be related to Luxembourg, an executive of a major U.S. oil multinational agreed there is "quite lively and forward looking motion" in the direction of the Luxembourg plan by U.S. industrialists. He cited the connections of the Saudi Investment Bank, and the Arab-Latin American Bank with U.S. banking circles, and the simultaneous involvement of the Hamburg-based Deutsche Suedamerikanische Bank, set up by Jürgen Ponto, in the same Arab-Latin American circles.

London Bankers Worried About Luxembourg

The London *Daily Telegraph* Dec. 19 reported on the British Bankers' Association evidence to the Wilson Committee investigations on the operation of the City of London, and reported that according to the BBA, "London's position as the world's foremost banking centre is by no means totally secure and some business has been lost to other places, particularly to the offshore banking centres in the Bahamas and the Cayman Islands... Paris could seriously threaten London's position" — and Luxembourg is making a strong bid to get some of the business, the *Daily Telegraph* adds.

"Luxembourg's international banking business has grown up largely as a result of domestic restrictions on German and Swiss banks... Confidence in London has been undermined by the precipitate fall in the value of sterling, by threats of bank nationalization and by suggestions that the authorities should attempt to direct the investment of bank deposits." The Association thus urges the government to permit the banks to operate in "an atmosphere of stability and reasonable independence from political direction of their activities."

According to the *Daily Telegraph*, the BBA put forward a 10-point program which includes "relaxation of exchange control; in particular it wants the removal of the ban on financing third-country trade in sterling; abolishing the investment currency pool or at least the 25 percent surrender rule; and the permission for industrial companies to hold foreign currencies longer... Finally, the BBA wants the authorities to encourage London to become a world center for international portfolio management. This would need relexation of the rules on residence, exemption of non-residents from capital transfer tax on United Kingdom assets, and allowing banks to certify nonresidence."