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.

Nonetheless, these advisors seem to be committed to the semblance of a strong "reflationary" policy for key OECD countries, especially the U.S. and West Germany — as recommended by New York Federal Reserve Board President Paul Volcker, a long-time Chase Manhattan official, in a recent Sunday issue of the *New York Times.* Carter's people believe that failure to sell this policy to the W. Europeans (to "goose them" as the *New York Times* said yesterday), will lead to an acute financial crisis, sooner rather than later.

This short-fuse on the international side of the problem is extremely important, despite the projections of even the most "bearish" of established U.S. forecasters (an admittedly rare breed), who might project a sluggish 1977 leading to a new recession in 1978 on the basis of computer simulations based on fixed, linear relationships which show the economy gradually running out-of-steam. The real world, however, will operate on the basis of non-linear, non-programmable judgements. Even if from a purely "domestic" economic point-of-view it might appear that Carter could somehow come up with a number, not too large and not too small, which will placate both the bulls and the bears for at least several quarters, the international situation does not allow such leeway.

This overall situation makes the acute difficulties faced by the Carterites clearer. Despite pressures from many of his supporters for a $30 billion-plus program, consisting mainly of forced-work jobs, the pressure to avoid touching off a new inflationary surge has come increasingly to the fore.

This pressure was reflected by Bert Lance, Carter's Director of the Office of Management and Budget, who said yesterday, "I think we've got to be very, very considerate of the fact that economic stimulation packages add to the deficit, which is already very, very high and I think if you're not very, very careful about it, you're going to cause some real problems in the minds of the American people."

Despite the recent sharp drop in farm prices, the underlying rate of inflation in the U.S. economy is quite high. Leaving out food, the consumer price index increased at a 6.7 per cent annual rate from January through October. The wholesale price index for industrial commodities increased at a 6.8 per cent rate over the same period. More recently, the WPI industrial commodity index increased at a 7.8 per cent annual rate from May to October.

Broken down further, the price of fuel and related products and power, which comprises over 13 per cent of the industrial commodities index, has risen at a rate of 18.5 per cent since May, while the prices of all other industrial commodities has risen at a rate of 6.1 per cent, the same as the first five months of the year.

Higher fuel, along with other costs, are simply not being passed along by manufacturers at present, due to weak business conditions. Instead, these costs are being absorbed through a depressed level of capital spending (new orders for non-defense capital goods declining a whopping 10 per cent in November), and very high rates of speedup imposed on a manufacturing workforce some 6 per cent lower and plant and equipment considerably less efficient than in June, 1974. And with all this, November industrial production barely passed the "pre-recession" peak.

While that is indicative of hidden, accumulating inflation, the possibility of renewed inflation simply doesn't depend on the need to pass along old costs. Freud once noted that if he went down to the Thames River and held a man's head under water until he drowned, it wasn't necessary to repeat that experiment in every river in the world. U.S. industrialists, normally an "objective" lot, have learned that lesson the hard way. Whatever the final size of Carter's package, they know it will create a huge deficit in the current fiscal year. The originally rejected deficit of $50 billion has already been raised over $10 billion by Congressional Budget Office Director, Alice Rivlin, a Brookings Institute expert on such matters. Adding on so-called off-budget agencies and a mere $15 billion Carter program, the deficit will approach $90 billion.

Although a feeble case could be made that this can be financed if capital spending, government social services, etc, are sufficiently reduced, the possibility of a borrowing stampede in anticipation of the perceived inevitable result of such deficit financing is very high...In fact, the failure of such a "scenario" to occur replete with rising interest rates, would only indicate that the U.S. economy is so weak that the rest of the world had better abandon it in short order, or go down the drain in history's worst depression.

Although such behavior by industrialists might seem irrational in terms of self-interests, it is perfectly understandable. The simplest way to get a quick understanding of the possible dynamics of the economy in the upcoming period is by noting that total liabilities in the economy have increased by over $1.1 trillion, some 25 per cent, to nearly $6 trillion total in a two and one-half year period, June, 1974 to present. During the same period, industrial production fell over 15 per cent and then returned to its former level. Obviously, despite talk to the contrary, the economy and its inflationary potential is far worse today than ever before. Since this mass of fictitious paper is self-expanding, it obviously represents tremendous inflationary potential, dependent of the political ability of the Wall St. financial controllers to reduce real production and living standards fast enough to alleviate the short-term danger. This, of course, is the argument of the outright fascist "energy conservation" advocates who have been so active in recent weeks, and who, as noted French economist Jacques Rueff noted in reference to the Nazi economy, want to avert inevitable inflation through out-right cannibalization.

Until this basic problem is cleared up once and for all, serious economic forecasting will be relegated to short-term snapshots of a highly volatile situation. As for those who listen to the current round of "pause is over" talk from those who were miserably wrong in 1974, 1975, and 1976, the years of the "upturn," Freud's little story should be kept in mind.