ventures and cutting production costs wherever possible. In the past year and a half, U.S. companies have invested heavily in buying each other up, figuring that it is better to buy up standing capital and equipment than to develop new-technology facilities.

Last year, the total value of corporate mergers exceeded $20 billion, the highest level since 1969, and the totals will be higher this year. At the same time, the *New York Times* and *Washington Post*, proposed Nov. 14 that a more "probusiness" Administration adopt the tax-incentive program proposed by "liberal" economist Arthur Okun and by Henry Wallich, a governor of the Federal Reserve. The plan, called TIP, would penalize companies for raising wages above a standard modeled on the Brazilian cost-of-living wage indexation and speed-up criteria. Companies that push wages below the standard would get "tax breaks."

U.S. Steel Chairman Speer's recent proposals to cartelize the steel industry, rationalizing jobs and lowering wages, follows directly from such corner-cutting insanity. Steel will pave the way for the rest of U.S. industry to become "more competitive."

If industry adopts this and other austerity proposals now —as it has adopted some full-employment proposals already — profits will look like the final stretch of a rollercoaster, from which the economy will not recover.

—Richard Freeman

European Central Banks To Mobilize Gold Reserves?

Earlier reports from West German Finance Ministry sources that European central banks would remonetize gold after new International Monetary Fund rules came into effect Jan. 1, 1978 are corroborated by an array of developments last week. The prestigious West German daily paper *Handelsblatt* published a lead editorial Nov. 17 entitled "The New Gold Standard," which asserted that central banks would use the new rules to purchase gold as backing for their currency reserves. "The role of gold is on the road to remonetization," the newspaper predicted confidently.

GOLD

The IMF rules in question date from the January 1976 meeting of the organization's Interim Committee in Jamaica, which agreed to "demonetize" gold by giving central banks free rein to trade the metal, in a French-American compromise.

According to West German sources, the first major clearing operations in gold will start immediately as the new rules come into effect, involving the Banque de France and the central banks of several developing countries. If the first steps towards gold remonetization take this form it will have significance beyond the initial transaction. Last month, the chairman of the French nationalized bank Credit Lyonnais visited Moscow and proposed joint Franco-Soviet investment in developing countries, with reportedly favorable responses. Senior official French sources say that negotiations with the Soviets towards common monetary gold arrangements are "maturing on the Soviet side."

Closely related to the West German monetary discussion is the change in the world strategic situation after the announcement of the Sadat-Begin visit. One senior Swiss banker with close personal ties to West German leaders said, that West German Chancellor Helmut Schmidt "will move to gold only if the American nuclear umbrella is no longer relevant to West Germany. The Germans are not antigold, but they will do nothing to contradict their strategic relationship to the United States." The new phenomenon of Mideast peace negotiations conducted under the nose of the White House might give the West Germans more maneuvering room in other fields.

NSIPS interviews with senior West German officials and well-placed private bankers indicated that the country is still divided on the gold issue, and that no final decision has been made. One top-ranking private sector banker said that he expected a movement towards gold to be facilitated by the projected role of West German banks in opening a major gold-trading market in Luxembourg, but that the shift to remonetization could take several years. But other sources indicated they expected the French to take an immediate initiative which would settle the question for West Germany.

Indications are that last week's sharp drop in the gold price, from a high of $167 to a low on Thursday of $158.60, included a strong element of political infighting over gold's monetary role. (As EIR went to press, the gold price had recovered by over $2). A large element in the gold decline was the sale of 46 tons of the metal by Portugal, which was forced to market this huge amount by the U.S. Treasury. Portugal had pledged the gold against an earlier $300 million loan from the Treasury, which the Treasury called. In effect, the Portuguese gold affair seems to have been the political equivalent of a Treasury gold sale to depress the gold price. However, the reported timing of the Portuguese sale does not correspond precisely to the drop in the gold price, although it certainly could have been a major influence nonetheless. Opinion among gold traders is divided, but there is general agreement that the sharp price drop represented temporary profit-taking, and that the price will recover within days.

Among proponents of gold demonetization here, there is an air of resignation about the Western European move. Given the dropoff of world trade levels. a senior World Bank official said, "The Europeans don't have much other choice. It wouldn't surprise me in the least" if the Western European central banks mobilized their gold reserves, he said.

Steel Reference Price Proposal Masks Rationalization Of World Steel

Judging from comments made by European Economic Community (EEC) Commissioner for External Relations Wilhelm Haferkemp, as well as other knowledgeable European sources, the EEC countries have accepted in principle the U. S. Treasury's recently announced plan to establish a reference pricing system on steel imports.

WORLD TRADE

The most recent move in the "organized free trade" game now unfolding between Western nations, the reference price scheme will only throw a few meager crumbs to Europe's near-bankrupt steel producers, now being forced into major rationalization.

In the short term, the plan will allow the Europeans to continue to dump on the U.S. market, at the expense of the more cost-efficient Japanese producers. In the longer term the Treasury Department's scheme complements the Davignon Plan for European steel rationalization now being pushed through the EEC. The Davignon Plan, premised on the standard Fabian rationale of "more equitable distribution of resources," calls for the destruction of a large percentage of European steel capacity.

Despite the fact that the governments of both French President Giscard d'Estaing and West German Chancellor Helmut Schmidt are pursuing policies of expanded nuclear energy development that can be expected to sharply increase Europe's demand for steel, near-bankrupt European producers are expected to seize the U.S. plan as their only hope.

No Efficiency Please, We're British

The collusion of the U.S. Treasury and the EEC Commission in pushing through a worldwide Davignon Plan was hardly disguised at last week's National Foreign Trade Council meeting in New York. One NFTC spokesman stated bluntly that "we think the steel companies in our organization would welcome rationalization along the lines of the Davignon Plan"; while EEC Special Counselor for External Relations Theodorus C. Hijzen stressed the need to "adopt the capacity of the world steel industry to the real situation of the world market and have international cooperation."

Feigning concern over the possibility of all-out trade war, Haferkamp warned a businessmen's dinner in New York Nov. 10 that failure to take concerted action would mean the return "of dole queues," "soup kitchens" and "banners on the streets and torches in the night" throughout Europe.

As proposed, the Treasury plan embodies the worst aspects of British "muddling-through" at the expense of truly efficient production. The reference prices will be based on production costs at the most efficient Japanese mills, and would include freight, duty, and insurance, plus 8 percent for profit. Any importer caught selling steel at more than 5 percent below this price would be penalized by extra duty charges. This will hit the Japanese most severely since their highly modernized and cost-efficient industry has allowed them to sell at prices well below those of European and American producers. With this advantage eliminated by a floor price, it is expected that Japanese exports will suffer and Japan will lose the high operating ratios it requires to keep its steel industry solvent.

"Unsuitable for Job Creation"

The mad scramble to maintain export competitiveness over foreign producers has forced European producers into a rationalization "auction." So far, Britain's nationalized British Steel Corporation appears to be leading the bidding, offering to lay off 60,000 of its 200,000 workers in an industry-wide shake-up; BSC's chairman, Sir Charlers Villiers, told the press Oct. 28 that "Because steel is a capital-intensive industry it is expensive and unsuitable for job creation." Other European producers are not that far behind. West Germany's current steel workforce of 340,000 is 34,000 under 1974 levels, with 50,000 of those remaining on short time, and France has just announced a rationalization program to lay off 16,000 workers by 1979, with 10,000more to follow.

The European steel collapse is the result of a worldwide recession halting capital investment. In the first nine months of 1977, according to the International Iron and Steel Institute (IISI), steel production has dropped by 4.6 percent in the U.S., 10.1 percent in West Germany, 2.2 percent in France, 5.8 percent in the UK. and 1.7 percent in Japan, compared to the first nine months of 1976.

As the *London Times* of Nov. 16 noted: "the point has