

## DOMESTIC CREDIT

### Morgan retools Ted's economic program

What's Morgan Guaranty Trust, patrician Republican bastion that it is, doing advising presidential hopeful Sen. Edward Kennedy on domestic and international economic policy?

Teddy Kennedy has called up people at Morgan on a number of occasions lately seeking advice on various economic subjects, a senior executive at Morgan revealed to a journalist last week. The Morgan spokesman also commented that, to his mind, Kennedy and former Treasury Secretary Connally are the two presiden-

tial candidates capable of carrying through on the stringent "economic management" program sorely needed at present to maintain a strong dollar.

The internationally minded Morgan bank is concerned that the weakness of the dollar and the economic policy vacuum in Washington is prompting Europeans to scrap Anglo-American world monetary leadership and the International Monetary Fund and move ahead with their gold-backed European Monetary System. In the hopes of slowing down this drift, the people at Morgan are trying to regroom the flaky Mr. Kennedy as a tight-fisted monetary

and fiscal conservative—someone they hope would be attractive to the Europeans.

The Kennedy image had indeed gone through a remarkable transformation in recent days (related story: see U.S. section). In a column in the *New York Post* Sept. 19, titled "Teddy Edging Right," syndicated columnists Evans and Novak enumerated Teddy's recent 180 degree turns on the whole gamut of economic issues: Kennedy told Evans and Novak that he now approves of Carter's stringent credit policy; he's dropping his crusade against oil price decontrol; he favors increased defense spending; and he's for tax incentives for capital formation rather than a cut in personal income taxes.

As part of the retooling of the Kennedy candidacy, Kennedy's international monetary advisors are instructing him to favor the EMS as well as the monetary role of gold in his public utterances.

## WORLD TRADE

### Clamp steel output, conference demands

At the Metal Society International Conference in Amsterdam Sept. 11-14, Viscount Etienne Davignon, the European Community's industry commissioner, announced that European steel mills will have to undergo further intensive rationalization. "In Europe," Davignon said, "only a handful of firms are in the black." As expected, Davignon called for world cartel-type arrangements to enforce a restriction of steel production and set the tone for a bevy of pessimistic recitations about why the world steel industry can't finance or consider employing new technologies.

A British representative at the conference stressed that "we need higher world steel prices." This, he stated, is not necessarily to increase production, because "there will definitely be no major increase in world consumption." He added: "The main problem in the steel industry is to find other employment for laid-off steel workers." In response to a question on to increased productivity, a representative from U.S. Steel Corp. Mr. Bela Gold, commented, "I don't know whether new investment will lead to economic success. Besides, we all have no proven concepts on what determines productivity."

The low point of the conference came when various speakers—including Japanese spokesmen—told

the third world delegates present that they could eventually produce up to a limit of 25 percent of the world's steel output, but would have to do it through what was called "appropriate technologies," which is code for inefficient, labor-intensive steel processes.

America's stake in the conference was expressed by the fact that while American steel shipments were up during the first half of the year—53 million tons shipped—the downturn in the auto industry could have serious repercussions. Auto consumes 20 percent of all steel, and auto sales fell by 12 to 15 percent on average during August and early September. Thus, while U.S. steel plant capacity was up to a five-year high of 90 percent in the first half of the year, *Iron Age*, the leading reporting magazine for the iron industry, states in recent press releases that "demand for steel continues to weaken ... and order rates are down."

U.S. steel producers are now

### **Squeeze on credit availability?**

Another facet of the effort to conjure up the appearance of strength and responsible economic management in the U.S. is Fed Chairman Volcker's latest move on monetary policy: the record 11 percent discount rate. More interesting than the new hike in the rate itself on Sept. 19 was the reasons the Fed gave for doing it and the signs of a building fight over Volcker's strategy of high interest rates and monetary stringency.

In announcing the latest increase the Fed specifically said that its motive was to slow member bank borrowings from the Fed. Over the last month these borrowings have averaged almost \$1.1 billion per day—high, but still below the record levels set in 1974, when in the week ending Sept. 4 they averaged \$3.75 billion.

Banks go to the Fed's discount window for funds when the cost is below what they would have to pay in the federal funds market for over-

night, interbank loans. By bringing the discount rate in line with other short-term interest rates, the Fed is acting to limit the supply of affordable funds to its member banks.

"We're getting into the squeeze portion of Mr. Volcker's program," money market economist David Jones of Aubrey Lanston concluded last week.

As commentators noted last week, the vote raising the discount rate was unusually close—4 to 3—and revealed the growing split within the ranks of the Fed Board of Governors itself over Volcker's strategy. The opposing members, J. Charles Partee, a former member of the staff of the Brookings Institution, and Nancy Teeters and Emmett Rice, the two Carter appointees, are of a more liberal stripe. Until very recently, one would have expected Edward Kennedy to be in their camp.

In my last column I noted the eerie parallel between the high inter-

est rate policy adopted by the Federal Reserve in 1929 and what the Fed is doing now—on this fiftieth anniversary of the crash of '29.

It is important to underline the fact that even after the shakeout of the stock market, which took place over a period of a number of months, the world economy's plunge into the Great Depression was by no means irreversible. It could have been turned around at any time through policies of Rapallo-type East-West trade arrangements and industrialization of the colonial world.

However, the U.S. Fed, the Bank of England and allied world central banks kept their national commercial banks on a short leash by inching interest rates higher and higher, and precipitating a wave of bank collapses. This is what produced the Depression.

—Lydia Schulman

watching foreign steel imports move up slightly. This may lead American companies, headed by U.S. Steel, into bellicose demands on the U.S. government for tighter restrictions on Japanese and European Community Steel imports. In mid-August, the U.S. Treasury announced that it was not going to raise steel trigger prices during the fourth quarter. The weakening of the yen has meant that existing trigger prices, set when the yen rate was strong, would be too high. However, in the last two months, the relative shortage of steel led to a slight increase in steel imports, and U.S. Steel wants to make sure this trend is stopped. This is especially important, U.S. Steel recognizes, because in early September U.S. Steel raised the price of certain heavy steels by 4 to 5 percent and the price increases won't stick if foreign steel is plentifully available.

—Richard Freeman, New York  
and Helmut Boettinger,  
Amsterdam

## **BANKING**

### **Marine Midland misrepresents takeover**

On Oct. 17, Marine Midland shareholders will gather in the bank's Buffalo auditorium to approve or reject the new terms of the Hongkong & Shanghai Bank's proposed takeover of Marine Midland. Marine's management, which favors the takeover, is trying to keep stockholders in the dark on the full background of the vote.

For almost a year, the takeover has been blocked; New York State Banking supervisor Muriel Siebert withheld her approval this summer. She was partly influenced by the political ruckus triggered by the U.S. Labor Party's evidence that the take-

over would violate the national interest because of the HongShang's central role in financing and transshipment of illegal drugs. The Marine-HongShang response was to seek a national charter—under which the protakeover Comptroller of the Currency, John Heimann, could rubberstamp the deal—and to raise the stock offer from \$30 to a still-low \$34 a share.

Marine stockholders, who hastily approved the initial offer, are being told in the "Notice of Special Meeting" dated Aug. 31 that the reason Siebert rejected the takeover was that the HongShang's initial offer for Marine's stock was too low—a complete misrepresentation of Siebert's motives and public statements.

—Richard Freeman