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Mr. Carter's Deficit And The Financial Markets

BUSINESS OUTLOOK

The $19 billion increase in the government deficit presented to Congress and the nation by Jimmy Carter on Feb. 22 has haunted the financial markets for the last two weeks. Previously, the financial community had known that Carter's economic stimulus package would explode the fiscal 1977 and fiscal 1978 deficits, but it took Carter's public commitment to such an inflationary budget policy, which is bound to push interest rates higher and undermine real economic growth, to send jitters through Wall Street.

Federal Reserve Chairman Arthur Burns' own performance before the Joint Economic Committee of Congress Feb. 23 didn't help matters either. "I don't want to criticize anyone." Burns puffed, "but in all humility I have to say that the increase in the federal budget is stirring up new fears and expectations of inflation that in some degree may turn out to be a self-fulfilling prophecy." Everyone's fears and expectations of inflation rose.

The primary concern on Wall Street centers on the question of "timing" — i.e. fears that the Treasury will bungle into the market at the same time that corporations are endeavoring to do balance sheet restructuring. As soon as the Carter budget was out, David Jones of Aubrey Lanston estimated that Treasury borrowing in the present calendar year would be $85 billion (on and off-budget financing) and predicted that rates on three-month Treasury bills would increase to 6 percent by mid-year. (Average yields were 4.67 percent at the time of Jones' prediction and have since edged up to 4.7 percent.)

The projected deficit has not resulted in escalating interest rates over the last two weeks only because of a combination of ominous economic signs. For one thing, the spate of bad economic statistics, which stem in large part from the January-February cold wave, consoled investors that the economy was not overheating. In addition, the low corporate bond calendar in March has pushed bond yields down to where they were in early January. Corporations have only scheduled about $1.6 billion in debt obligations for sale in March, compared to a recently monthly average of $2.1 billion. According to Henry Kaufman of Salomon Brothers, industrial companies are decreasing their offerings to about $4.26 million this month, compared to $571 million last month and $2 billion in January (the large increase in January was in part seasonal). This week, for example, there were no new debt offerings by industrial companies, perhaps the key factor in the improvement of the market.

Similarly, the stock market is gaining some ground, but no one on Wall Street will say that it is headed for a rally. The Dow Jones average closed at 954 Friday afternoon, after gaining about 20 points over the week. However, continuing low volume reflects the underlying fears of inflation.

The Administration, as one would expect, has been going out of its way to try to reassure the financial markets — after releasing its whopping budget deficit last month. In a speech in New York on Thursday Treasury Secretary Michael Blumenthal commented, the projected budget deficits "needn't be inflationary in an economy with so much unused capacity, nor need it lead to appreciably higher interest rates in an economy currently awash in liquidity." Blumenthal likewise made some reassuring noises about capital formation and said that federal spending continued to run under projections in the first four months of fiscal 1977 (Oct-Jan, the final months of President Ford's tenure) and as a result the actual deficit is likely to be smaller that the $68 billion projected in Carter budget. Blumenthal conveniently did not discuss what his own administration's tax rebate and spending program would do to the deficit over the next few months. The bond and stock markets also decided to ignore reality and thus staged a rally following his speech.

What's Behind The Wave Of Merger Bids?

CORPORATE AFFAIRS

The background to the failed bid by Standard Chartered Bank of London to take over the French Rothschild-controlled Bank of California is the scramble for control of the Pacific Basin market. According to Morgan Stanley, Standard Chartered's New York investment banker in the Feb. 22 bid, the bank now wants a "strong position around the Pacific rim." Standard Chartered presently has substantial interests in the Far East (the old Cartered interests) and hoped to complete the circle by merging Bank of California with the 19-branch, California-based Chartered Bank.

Bank of California, the major extention of the Rockefeller-allied French Rothschilds in the U.S., also has ambitions in the Far East. In an interview published in the Feb. 24 Financial Times of London, Chauncey Schmidt, chairman of BanCal, said he believed the bank would carve out a comfortable share of the growing Pacific Basin market — the "new frontier" of banking. BanCal presently has branches in Tokyo, Manila, and Taipei.

BanCal has resisted the bid to take over its assets

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