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 overnight, 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 interest 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

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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 takeover 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

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