Who's Bulling The Stock Market?

N.Y. Stock Exchange grazes 900 mark in its heaviest day of trading ever

Asking who is responsible for the tremendous rally on the U.S. stock markets last week is like asking who killed JFK. The answer to both questions is: everybody—for different reasons.

A major factor which resulted in the heaviest day of

BUSINESS OUTLOOK

trading in history on the New York Stock Exchange on Aug. 3 and pushed the Dow Jones average within a hair's breadth of the 900 mark is the fact that Federal Reserve Chairman G. William Miller has been forced by Administration pressure to retreat from his commitment to pushing interest rates higher and higher.

The attacks on Miller's policy by Special Trade Negotiator Robert Strauss and other individuals close to the President picked up steam about a month ago, when, for example, Commerce Department chief economist Courtney Slater warned June 29 that " any further rise in interest rates would seriously damage the economy." The inner circle of Carter advisors—including the Watergated Bert Lance—have been outspoken advocates of low interest rates as an offshoot of their pro-industry orientation, unlike the Mondalites and the Brookings Institution group (C. Fred Bergsten, Anthony Solomon, Mondale himself, et al.) who favor low interest rates in line with their commitment to global hyperinflationary austerity.

The most promising factor behind the stock market rally is the new recognition in top business circles — now breaking out into the public media—that the results of last month's Bremen and Bonn industrialized nations' economic summit meetings in fact hold the potential of the greatest economic boom in U.S. history—should U.S. business leaders line up with their agreements for monetary stability, Third World development, and advanced sector reindustrialization. On Aug. 2, J. Paul Austin, chairman of Coca Cola and a leading spokesman for U.S. Sunbelt business interests, said in an interview in the *Atlanta Constitution* that the U.S. business climate is improving "because of Bremen and Bonn." This is the first public endorsement by a leading U.S. figure of what the Bremen and Bonn accords actually mean, and it is likely that the big move by U.S. institutions into U.S. equity last week was triggered by a top-level political decision of the same nature.

Stabilizing the Dollar

Market analysts are reporting that the stock market rally is tied to the improved prospects for the dollar—specifically the likely stabilization of the yen-dollar parity over the near term. This development is itself the work of the pro-Bremen and Bonn industrialist faction in Japan, which in recent days has been buying dollars in massive amounts in order to prevent a further appreciation of the yen and promote general currency and economic stability.

There is another side of the coin, however. Analysts at Morgan Stanley and other outposts sensitive to London currents report that European—especially British—investors have come back into the U.S. stock markets in a big way while the dollar is still falling, continuing their April strategy of "buying up America cheap."

An article in the Aug. 1 issue of the *Financial Times* of London hints at a more nefarious motivation for Miller's sudden backing off from his high interest rate policy. The *Financial Times* deplored that as long as the U.S. Federal Reserve keeps U.S. interest rates high, it is impossible for the Bank of England to cut the minimum lending rate in Britain. The Bank of England has been forced to keep British interest rates at astronomical levels to hold money in the worthless pound sterling, but that policy has simultaneously created a liquidity crisis for Britain's crumbling 19th-century industrial sector,

At this writing most stock and bond market traders and analysts have no conclusive explanation of the current rally. Despite widespread confusion about where interest rates are actually headed, money managers acted as if interest rates had peaked last week and poured funds into the bond market. The professional managers are sitting on a huge amount of cash which they are eager to lock up in investments. Current supplies of new corporate issues are unusually low—only about $1 billion are scheduled to be sold in August compared to the $2.1 billion calendar in July. And the money managers are afraid of getting caught in a market of falling yields. All these factors added up to a remarkable recovery of prices last week. The rally was further fueled as speculators rushed to cover their previous short sales of borrowed bonds. In the tax-exempt market, where the Treasury undertook a $7 billion refinancing, the same factors held, and yields on the new Treasury offerings fell throughout the week—$3 billion of seven-year notes went for an average yield of 8.46 percent on Aug. 1 and 8.36 percent Aug. 2. Also boosting prices in the Treasury market is the fact that the Fed has been purchasing significant amounts of Treasury bills for the Bank of Japan, in line with the Bank's growing holdings of dollars.

Miller's Strategy

One thing about which there should not be any confusion or uncertainty is Miller's solid commitment to a deflationary—economy-wrecking—strategy. Miller is giving every indication that he is implementing the call by the Anglo-Dutch-oriented OECD at the end of last month for a sharp reduction in U.S. economic growth—that is, a recession—no matter what the consequences to the U.S. unemployment rate. The OECD's report on the U.S. economy—published annually by this bulwark of the Anglo-Dutch financial interests—predicts that the economic slowdown in the U.S. next year will be "significantly more pronounced" than the Administration expects.

In line with the OECD's prediction, Miller told the House Banking and Currency Committee July 28 that unless U.S. industry moves to rapidly set up "voluntary inflation councils" to hold down wage and price rises, mandatory wage-price controls will have to be imposed. Miller said that the inflation councils will write guidelines—to be "reviewed and debated with government"—for the auto, steel, and nonferrous metals industries. They would give Miller the power to roll back price increases or block "inflationary" expenditures—such as building new capacity—in vital industries and bankrupt them.

The other element of the deflation strategy involves top-down control over credit supplies. The Aug. 7 issue of *Business Week* proposed that Miller exercise his authority to regulate the economy through credit controls, an authority granted under the 1969 Credit Control Act, whose use does not require new congressional approval. "If the Fed does invoke the 1969 Act," *Business Week* wrote, "the Fed would obtain sweeping power over every credit action in the country." Miller would be able to "set the maximum amount of credit for any transaction, set interest rate ceilings as well as the terms of consumer credit, and prohibit or limit extensions of credit under any circumstances."

In 1973 and again in 1974 Miller, then chairman of the asset-stripping Textron Corporation, demanded that these powers be used by former Fed Chairman Arthur Burns. So Miller is perfectly amenable to the idea.

Faction Fight In U.S. Corporate Boardrooms

When Mobil Oil's second-in-command, Herman Schmidt, who is also the chairman of the American Enterprise Institute, was asked to take his retirement five years early, the word was out that faction fights are indeed breaking out in corporate and bank boards across the U.S.

CORPORATE AFFAIRS

Schmidt's retirement implies a tightening up of corporate control at the very top. Rawleigh Warner, Mobil's chairman, has ordered Herbert Schmerz, head of the corporation's Public Relations Department, to henceforth report directly to him.

The current boardroom turbulence could indicate that the Operation Conservative effort to gull U.S. business into support of "free enterprise" is failing. The Heritage Foundation, the American Enterprise Institute and Schachtian economist Milton Friedman have all been involved in trying to convince U.S. industrial and commercial leaders to support the liberal system of free enterprise — with its obviously British overtones. The free enterprise drive is a leading feature of this faction's attack on the development, trade, and monetary stabilization policies gaining sway in Europe, Japan and the Arab world around preparations for the implementation of the new European Monetary System.

The faction fights revolve around interpretation of the European Monetary Sytem, established by West German Chancellor Helmut Schmidt and French President Giscard d'Estaing, and the much-heralded "Operation Free Enterprise" in the U.S.

The clearest indication of this is the argument between First National Bank of Chicago's Chairman Robert Abboud and the bank's Executive Vice-President Edwin Yeo, the former Undersecretary of Treasury for Monetary Affairs. It is rumored that Yeo, who gets his interpretation of the Bremen accords from the International Monetary Fund, has caused Abboud much discomfort by telling bank customers that the European Monetary System is antidollar, but could not work because of varying inflation rates among European economies.

In a leading Midwest corporation, a former intelligence officer who goes by the nickname "007" is under investigation by the corporation's chairman for willfully withholding information from the corporation executive and acting "on his own" in certain sensitive matters.

Similarly, an explosive situation has developed in an Eastern chemical giant where, in a reverse situation, the chairman is being watched by corporate directors for his recent behavior in the prestigious Business Round Table.

The retirement of Schmidt, a small item in the personnel columns of the financial press, is being seen as a major corporate shakeup. Schmidt, together with Irving Kristol, the social democratic-libertarian and a director of the American Enterprise Institute, have been the leaders in assembling a $60 million warchest from U.S. corporations to fund university chairs, television programs, and speaking tours and films about the benefits of "free enterprise."