

The last remaining area of bank profitability in the U.S. economy — loan demand from small and medium sized businesses at the regional banks — is being killed by high interest rates. Several months ago regional banks reported that they had begun to make loans to long-standing customers at rates significantly below the prime rate, rather than see them go bankrupt.

The fourth quarter 1978 earnings reports of the money center banks showed that the increase in their operating profits derived solely from speculation against the dollar and spreads between the escalating prime rate and their cost of funds. Narrowing spreads in the Eurodollar market have now just about caught up with the multinational banks; the commercial paper market (excess funds corporations lend one another) has replaced their lending activities; and the money center banks are now looking for more exotic forms of arbitrage.

tion to this problem: the technology of controlled twinning, for effecting multiple cattle births, could break the cycle — price and supply-wise — and make a new leap in industry productivity.

As former American Meat Institute President Herrell DeGraff of Cornell University told the Southern Beef Conference in early January, the only opportunity for more beef production will be more cows. DeGraff outlined the tremendous leaps in meat production since 1950 when a changing composition of herds, together with the development of the intensive "feedlot" sector, sharply increased national beef output in relation to the size of the cow herd. The key to the next boost in productivity, he stressed, would be realization of the technology of "controlled twinning." While in DeGraff's view the technology has not yet progressed far enough to affect the now-emerging cattle cycle, many believe that this question hinges on a policy decision.

CORPORATE STRATEGY

What's behind the Amexco-McGraw-Hill fight

Is a major battle erupting over corporate communications, data and word processing and data base market? Two recent events point up the fact that the corporate communications and intelligence field is becoming very sensitive — especially as corporate takeovers step up.

The first indicator was the skillful rebuff by McGraw-Hill, the trade publishing giant of the American Express Company (Amexco) takeover bid. The second was a New York Times front page eye-opener two weeks ago that revealed the National Security Agency has shaped the private electronics and communications field since the 1950's, which included handing RCA, IBM, and the Massachusetts Institute of Technology large sums to develop computers, reversing an FCC decision on the seventh transatlantic cable, and suppressing private encryption by corporations.

This expose followed by two weeks a notable speech by National Security Administration head, Admiral Bobby Inman to the Armed Forces Communications and Electronics Association, warning that private communications and encryption were approaching the sophistication of NSA techniques. The implication was that technology in the private sector must be halted to preserve NSA secrets.

While it is true that Amexco had a fistful of cash — why McGraw-Hill?

A clue is seen in McGraw-Hill's intention to invest \$200 million in a broad corporate information and communication system using McGraw-Hill's extensive data base gained through its contact with the subscribers to its 26 trade magazines, 29 newsletters and 300 trade book titles turned out yearly. Probably McGraw-Hill's only rival is the National Bureau of Economic Research, whose data

base was purchased two years ago by Citibank.

Even electronics analysts have been impressed by the extraordinary flurry of mergers and acquisitions over the past year. The year's most outstanding has been Northern Telecommunication's takeover of Sycor, Danray, and Cooke Electric. Northern Telecom is Canada's largest and the Hemisphere's second largest communications corporation, while the acquisitions are all American. Then ATT created its Advanced Telecommunications System, ITT acquired Courier Terminal Systems (Arizona) and Courier Terminals from Courier Boothe of Canada, NCR is still pursuing Compten, and GTE has absorbed Telenet. IBM announced its Satellite Business Systems and Fairchild (American Satellite) is acquiring 20 percent of Bunker-Ramo, a manufacturer of terminals.

The most interesting of the mergers, perhaps, is Xerox and Western Union International. Xerox, which just created the Xerox Telecommunications Network to go big in the vertically integrated field, is attempting to recreate the Western Union/WUI network — and then some — which was broken up by the Justice Department. As one well-informed analyst explained, not only will Xerox probably get away with the merger, but the electronic mail system will replace the Post Office.

The emerging pattern is clear. A handful of giants, whose number Amexco may still join, are vertically integrating the very sensitive corporate communications and information industry, while the NSA is going public in its market shaping and surveillance. Corporations might well ask some pertinent questions — and watch who's opening their mail.

— Leif Johnson