CREDIT MARKETS

Fed Chairman attacks American 'cult of growth'

Sounding more like the late Chairman Mao Tse-tung than the Chairman of the U.S. Federal Reserve, G. William Miller attacked the American "cult of growth" and called for self imposed austerity and a "long war" against inflation in a speech in New York, Feb. 13. "We are going to have to settle for dampened activity, slower swings in the business cycle, more stability, more austerity," Miller told a Conference Board luncheon.

Miller's remarks echoed an interview he gave which appeared in the West German economics weekly Wirtschaftswoche Feb. 12. There, Miller demonstrated that he and the Fed remain strongly committed to higher interest rates and deliberate recession. Miller promised economic slowdowns, saying "We are willing to pay the price of higher unemployment." He added, "Carter is committed to taking any political risk in fighting inflation — including the risk of not being reelected."

The gameplan on which Miller is operating, to maintain the dollar's value through high interest rates, is closely modeled on the International Monetary Fund-directed "stabilization" of the British economy in 1977 — a package of high interest rates, credit controls and wage and profit austerity which gave rise to a short-lived speculative boom in the London markets and the recovery of the pound. The results of this policy are currently attested to by the weeks long strikes by British grave diggers, garbage collectors and other workers. In line with Miller's long-standing policy of high interest rates, the package, given prevailing tendencies among some large banks, could portend a leveling off in the decline in the prime rate forced through by the Europeans and Midwestern banks last week.

The New York money center banks are merrily adapting to the Miller scenario. A decline in real economic activity necessarily means a decline in real banking profits, but rather than fighting the situation, the money center banks are seeking out new opportunities for pure arbitrage.

COMMODITIES

Behind the surge in beef prices

On Feb. 9 the U.S. Department of Labor reported that wholesale prices in January rose 1.3 percent, the largest monthly rise since November 1974, and an annual rate of increase of 15.6 percent. The most prominent component of the price rises was the 13 percent January rise in beef prices.

Behind the surge in beef prices is the working of an eight to ten year "livestock cycle" that remains undisturbed by science or technology.

At the moment, the total U.S. livestock herd is at a record low of 111 million head, having undergone a steady liquidation for five full years, a liquidation that was precipitated when feed prices went through the speculative roof in 1973. Since feed costs are central to what is otherwise a relatively long-term and expensive investment, cattlemen put a brake on herd-building and an outright liquidation process gathered momentum. The cattle industry has been looking for a favorable cost-price spread ever since.

At first the liquidation fed the price collapse. Now, with a doubling of meat animal prices over the year, cattlemen are finally beginning to think in terms of herd rebuilding.

The recent livestock price leaps attest to that. The decision to provide greater meat supplies will drastically shrink the supplies in the short term, creating further meat price increases, as cattle are withheld from slaughter to breed. Agriculture Department officials estimate that beef supplies in the U.S. will not begin to be ample again until 1982 or 1983 — beef cattle take about a year to gestate and, once born, several years to reach maturity.

The crux of the problem is that apart from the lengthy gestation and maturation period, cattle have only single births. There is a possible solu-

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 enought 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 skillfull 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 aquisitions 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*