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THE MERGER MOVEMENT

A Study in Power

Paul Sweezy

Harry Magdoff

This article was the Review of the Month in the June 1969 issue of Monthly Review, edited by Paul Sweezy and Harry Magdoff.

published by
New England Free Press
791 Tremont St.
Boston, Mass. 02118

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THE MERGER MOVEMENT: A STUDY IN POWER

During the last year or so a tremendous amount of publicity has been devoted to the corporate merger movement, but to our knowledge there has not been much serious discussion of its significance. A review of some of the outstanding facts and what they mean and do not mean may therefore be useful.

To begin with, there can be no doubt about the impressive magnitude of the movement, measured by any relevant standard. The following table is constructed from Federal Trade Commission data as reported in *Business Week* of April 19:

	1966	*1967*	*1968*
Total number of acquisitions	1,746	2,384	4,003
Number of mfg. and mining companies with more than $10 million assets acquired	101	169	192
Value of assets of acquired companies with more than $10 million assets (billion $)	4.1	8.2	12.6
Number of acquisitions made by 200 largest companies	33	67	74
Value of assets of companies acquired by 200 largest companies (billion $)	2.4	5.4	6.9

Complete data for early 1969 are not published in the article from which these figures are taken, but one statistic alone is enough to show that, far from coming to an end, the merger movement has actually accelerated in recent months. As against the $12.6 billion dollars of assets in companies with assets of $10 million or more which were gobbled up in 1968, the comparable rate of acquisition so far in 1969 has been running at about $18 billion.

As to the size of the present movement relative to earlier merger movements in U.S. history, *Fortune* magazine (February 1969, p. 80) states: "There have been merger movements in the U.S. before. One began in the 1890's and another in the 1920's; each lasted about a decade. But the current merger movement is lasting longer and is immensely bigger."

It is more difficult (and indeed may be impossible) to gauge the effects of the merger movement on the relative importance, in the economic system as a whole, of the giant corporations. The reason is that mergers (in Marxian terminology, the centralization of capital) are not the only factor operating here. In addition there is what Marx called the concentration of capital, which takes place through the growth of the separate companies rather than through their combination. The two forces—centralization and concentration—operate simultaneously and reinforce each other. Some idea of their combined effect in the postwar period can be gathered from the growth of the relative share of value added in manufacturing accounted for by the 200 largest manufacturing companies from 1947 to 1963. The figures stood at 30 percent in 1947 and rose to 37 percent in 1954 and 41 percent in 1963.*

There has certainly been a further increase in the relative importance of the giant corporations since 1963, but, for reasons just indicated, it would be wrong to attribute this entirely to the merger movement. In fact, even if there had been no mergers at all, the giants would still have grown, relative to the economy as a whole. This follows from two well-established facts: (1) On the average, the bigger a corporation is, the higher its rate of profit.** And (2) the more profitable a company is, the faster it can grow through the internal accumulation of capital. Big companies therefore normally grow faster than small ones and correspondingly take over an increasing share of the total economy even without any merger activity at all. Mergers undoubtedly hasten the process, but they are by no means essential to its functioning or continuation.

In assessing the economic significance of the merger movement, a further consideration needs to be taken into account. As a capitalist economy passes from its competitive to its monopol-

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* Data for 1947 and 1954 from a Senate committee report, cited in Baran and Sweezy, *Monopoly Capital,* p. 226n; and for 1963 from a special report "Corporations: Where the Game is Growth," in *Business Week,* September 30, 1967.

** On this, see the recently published study ***Profits in the United States**: An Introduction to a Study of Economic Concentration **and Business Cycles,*** by Howard S. Sherman, Cornell University Press, 1968, especially Chapter 2.

istic stage, certain characteristic features and laws of motion come into operation: absorption of the economic surplus becomes increasingly difficult, and the system is faced ever more sharply with the alternatives of economic stagnation and mass unemployment on the one hand or mounting production for socially wasteful and destructive purposes on the other. It is by no means clear, however, that the further development of monopoly after a certain point will have a proportionate effect on the way the system works. In this connection the performance of the U.S. economy in the 1930's is particularly relevant. The length and depth of the depression from 1929 to 1933 and the fact that the ensuing upswing came to an end in 1937 with more than 14 percent of the labor force still unemployed, suggest that the degree of monopolization reached by 1930 was already enough to dominate completely the functioning of the economy and to prevent it from achieving anything even close to full employment except through massive private and public waste. In other words the kind of viciously irrational and destructive system we have today was fully shaped as far back as forty years ago. Increasing monopolization since then has doubtless made matters worse, but not essentially different.

Let us now turn to the question of the effect of the merger movement—or, more accurately, of the growing relative importance of the giant corporations—on small business. Radicals and anti-monopoly liberals frequently assume that the increasing dominance of the giants necessarily implies the decline and fall of small business. Nothing could be further from the truth. A recent story in the *Wall Street Journal* (April 10) begins as follows:

> Worried that conglomerates are gobbling up companies so fast that by the end of the century some 200 super-corporations will own all of American business?
>
> Take heart. Far more businesses are starting out than selling out these days.
>
> Most of the fledgling firms are small, of course, and many won't last a year, but they are being formed at the fastest clip since the years that immediately followed World War II.
>
> Analysts estimate that between 450,000 and 500,000 new businesses will be launched this year, about 25 percent more than a half-dozen years ago. By comparison, W. T. Grimm & Co., a Chicago financial consulting firm, predicts that some 5,400 com-

panies will go out of existence through merger or acquisition in 1969.

The government's new-business index, which measures the net growth in business formations (new businesses minus firms that discontinue operations), last December stood at the highest point since mid-1948.

The great majority of these new businesses of course are in either retailing or the service trades, but there are also many in various branches of manufacturing. And far from contradicting the interests of the giant corporations, this proliferation of small businesses serves their purposes in many ways. A detailed discussion of this problem would take us far afield, but it may be worthwhile to point out three specific ways in which the giants benefit from the existence of small businesses.

(1) Every big corporation buys thousands of items ranging all the way from huge machines to paper clips. Many of these are supplied by other big corporations, but many offer too little prospect of profit to interest the big ones and these become the domain of small business. This being the case, the giants naturally prefer that there should be an ample number of suppliers competing among themselves to ensure low prices and good quality.

(2) The markets for the products of the giants typically undergo seasonal and/or cyclical variations. This means that at any given time demand for a product can be divided into a large segment which can be looked upon as stable and reliable and a smaller segment which fluctuates and may even disappear with the vicissitudes of the market. The giants employ various strategies for dealing with this problem, depending on the nature of the product and the market; but in most cases at least one element in the strategy adopted is to allow a number of smaller companies to enter the industry and fill some part of the fluctuating demand. Benefiting from the giants' monopoly price umbrella, these small companies may do very well when demand is strong. The other side of the coin of course is that they may be hit hard or even wiped out when demand is weak. In any case they act as a sort of stabilizer and balancer for the carefully calculating giants.

(3) Finally, much of the innovating function under mono-

poly capitalism is carried out not by the giants but by small firms, often specifically organized to turn out a new product or try a new method of production or distribution. And this is done not against the will of the giants but with their hearty approval. Innovating is risky. Most small outfits that try it fail, but a few hit the jackpot and it is this glittering reward that motivates a host of new hopefuls to keep at it. From the point of view of the giants all this activity serves the extremely useful purpose of showing which lines of innovation are practical and profitable, with all the risk being borne by others. Later on, the giants can move in, either buying out the successful small firm or imitating its innovation with a version of their own.

There are other business and technical reasons for the existence and spread of small enterprises in the period of monopoly capitalism, but the three described above should be enough to dispose of the unfounded notion that there is any tendency for the concentration and centralization of capital to result in the disappearance of small business. The *relative* importance of the giants grows; but as long as the system as a whole expands (and capitalism cannot live without expanding), this not only does not preclude but actually requires an *absolute* proliferation of the dwarfs.

Our analysis to this point leads to the conclusion that the current merger movement, though undoubtedly massive by historical standards, is not likely to have any profound effects on either the functioning or structure of the U.S. economy. What it means is more of the same, not anything really new. And the same goes for the much-publicized fact that the most spectacular merging activity of the last few years has been by the so-called conglomerates, i.e., companies which operate not in one market or a few related markets but in dozens or even scores of often quite unrelated markets. Two of the top five companies on *Fortune*'s latest list of the 500 largest nonfinancial corporations (General Motors which is number 1 and General Electric which is number 4) have long been conglomerates in this sense; and many, perhaps even a majority, of the others would qualify for the same designation. The real reason for the excitement about the "new" conglomerates lies elsewhere than in their newness.

For one thing, the latter-day conglomerates have been heavily promoted by all the devices of the Madison Avenue public relations industry and its Wall Street affiliates and confrères. The conglomerates—along with other corporations like IBM and Xerox which are not conglomerate or at any rate less conglomerate—have been built up as the "glamour" companies. Their masterminds are pictured as financial wizards and/or technological geniuses; their methods and operations are wrapped in an aura of magic and mystery; their potential for growth is blown up to fantastic proportions. A satirical piece in *Barron's* of February 5, 1968, purporting to give advice to the hopeful organizer of a new conglomerate, is worth quoting at considerable length both for its truth content and for its entertainment value:

Thanks for your letter telling me that you'd decided to become a conglomerate. It's about time you wised up and resolved, as they say, to flourish and make megabucks instead of knocking yourself out trying to keep the earnings of your crummy foundry from going down.

You ask how to do it. Brains, guts, funny money, a smile, and a shoeshine ought to be a sufficiency. It's really not much harder or very different from promoting one of those chain-letter games we used to play when we were kids. And don't kid yourself, it may end the same way. But you make a lot more money.

Anyway, the first thing to do is get hold of the speeches and annual reports of the real savvy swingers, who know the lingo and can make it sing. . . .

Actually, for my money, a cat out on the West Coast has the real psychedelic line—it's too bad you're not a doctor of something like he is. This doctor stuff goes over big with the security analysts. Anyway, read his stuff. He's got all the moves.

He made a speech to the San Francisco security analysts, where he talked about "advanced materials systems," "productizing R&D," and "the tools of growth: nucleation, replication, and working the synergies." He told *Business Week* the aim of his acquisition program was to provide "rivers of marketing into which we can feed the higher technology materials and products," and yaks about "the point of nucleation for a large-scale market penetration."

And this from a cat with about two-thirds of sales in defense parts, valves, actuators, structures, and metals brokerage-and-distribution. . . .

In the presentation at San Francisco, the Whittaker guys must have talked at least an hour about technology, philosophy, and the future, and hardly mentioned their present businesses except to repeat they were a growth company "in the area of advanced materials systems." Duke bought a fishing rod company . . . and convinced the analysts that he had integrated forward into materials usage. Next it will be further forward integration with a string company, and, of course, with that he's got the perfect hook for a move into oceanography—a very high-multiple area, incidentally. . . .

The point is that you have to project the right image to the analysts so they realize you're the new breed of entrepreneur. Talk about the synergy of the free-form company and its interface with change and technology. Tell them you have a windowless room full of researchers with genius IQ's scrutinizing the future so your company will be opportunity-technology oriented, so it will fashion change rather than merely respond to it like stupid old GM. . . .

If you pull off some good deals, and if the economy stays strong and your luck holds, you'll make a fortune, become a Captain of American Industry, and your stockholders will make some money too. If you pull off some bad deals or the economy goes sour at the wrong time—well, at least you ought to know enough to get out fast.

The purpose of all this fancy public-relations activity is of course to persuade Wall Street that the glamour stocks are worth a lot more than mundane balance sheets and profit-and-loss statements would seem to indicate. The desideratum is to attain, in the jargon of the stock market, the highest possible price/earnings (P/E) ratio. The stock of an old conservatively managed company which grows more or less in step with the economy as a whole (say at a rate of 4 to 5 percent a year) may sell at 10 to 15 times per-share earnings. The stock of a highly jazzed-up glamour company which has been able to show a record of rapid growth in the previous few years may, on the other hand, sell for 30 or 40 or even more times earnings. And therein lies the secret not only of the burgeoning of the latter-day conglomerates but also of the rise to wealth and prominence of a new stratum of the U.S. bourgeoisie. In order to be able to analyze this phenomenon properly, it will be useful to review some of the facts of corporate and financial life.

First, it is necessary to keep in mind as essential background the situation with respect to control of the typical giant corporation. Legally, of course, the stockholders are the owners of the corporation, and managements are simply their agents. In practice, however, the stock of most of the giants is widely dispersed among many thousands of holders, with no individual or group owning more than a small percentage of the shares. In these circumstances whatever management happens to be in power can normally remain in power and appoint its own successors.* In their famous work *The Modern Corporation and Private Property* (1932), Berle and Means found that 44 percent of the 200 largest nonfinancial corporations were management-controlled in this sense. An updating study by Robert J. Larner (published in the *American Economic Review* of September 1966) showed that by 1963 this proportion had risen to 84.5 percent. Reporting on Larner's work, *Business Week* put the following caption on a table comparing the situation in 1929 with that in 1963: "Professional managers have won ultimate control almost everywhere among the 200 largest nonfinancial corporations." Of course it is always possible for the management of such a company to be ousted by someone who succeeds in collecting proxies for a majority of the stock, and occasionally this does happen. But pulling off such a coup is very expensive and difficult: all the advantages are with the management, and under normal conditions it can go about its business without fear of attack from outsiders. Or at least that's the way it was until the new conglomerates came along. We shall return to this presently.

Next we need to know something of the way the conglomerates operate: how they grow by taking over previously independent companies and in the process generate the kind of increase in per-share earnings which is so important as a prop and booster to their P/E ratios.

We can distinguish two types of takeover: that which from the point of view of the acquired company is voluntary, and that which is involuntary. A company may want to be absorbed into another for many reasons. For example, a man may have a large part of his wealth in the form of stock in a company which he has built up in his own lifetime. If, as often happens, there is

* In many companies, incumbent managements are the lineal descendants (often in the literal family sense) of managements which were installed in an earlier period by big stockholders owning all or most of the company's stock. In this way the families of these earlier big stockholders often continue to control big corporations long after their holdings have ceased to be a significant percentage of the total stock outstanding.

no ready market for this stock, his heirs will be in trouble when he dies. They will have a big estate tax to pay and little cash to pay it with; and if they are pushed into a forced sale of the stock, they will probably realize much less than its true value. The obvious solution is for the man in question to sell out while he is still alive and to leave his heirs cash and/or securities for which there is a ready market. And usually the most advantageous way of selling out is to get some big company to take the stock in his company in exchange for an agreed amount of its stock, the reason being that such transactions are tax-free while a sale for cash or debt securities is subject to the capital gains tax. Another common reason why one company wants to be absorbed by another is that it needs capital for expansion and lacks the absorbing company's access to banks and the money market. Or the two merging companies may both want to be part of a larger enterprise with more prestige and less vulnerability to fluctuations in particular markets. In any case, regardless of the reasons a company may have for wanting to be absorbed, the fact that it acts voluntarily greatly simplifies the whole process. Voluntary mergers have figured prominently in the growth of all the conglomerates, old and new, and doubtless will continue to do so in the future.

Involuntary takeovers present different problems, and it is with them that we are mainly concerned in what follows. The acquired company here is usually (maybe always) one whose stock is widely dispersed among a large number of stockholders, in other words a company conforming to the type which, as we have already seen, predominates among the 200 largest nonfinancial corporations. The usual procedure is for the acquiring company to buy up secretly anything up to 10 percent of the target company's stock. (Ownership of 10 percent or more has to be disclosed to the Securities and Exchange Commission and immediately becomes public knowledge.) The next step may be for the aggressor (call it company A) to approach the victim (company B) with arguments and inducements designed to overcome the latter's resistance. If this fails, as it often does, A then plays its trump card, a tender offer to B's stockholders. This is an offer to buy shares in B—either all that are tendered or up to a certain percentage of the total outstanding—at a price which is invariably above the current market price and may be far above the market price. Payment may be made with cash or with A's own securities or some combination of the two. Once matters have reached this stage, B's management is all but defeated. Stockholders are an unsentimental lot, interested only in making money. If someone comes along and offers them more for their stock than they can get in the market, most of them will accept. There may be some hesitation when the payment is in A's securities rather than cash, and B's management will do its best to convince stockholders that they are better off with what they have than they would be with what they are being offered. But usually this doesn't work: stockholders who think poorly of A's prospects will simply turn around and sell the securities they receive in payment (at the time of the transaction always worth more than what they give up) and buy other securities which they like better.

How does it happen that acquiring companies can afford to make such generous offers to the stockholders of target companies? Here two factors come into play: first, the arithmetic of P/E ratios and stock prices; and second, the effects of the tax laws, especially in that they treat interest paid on debt securities as a cost which is deductible in calculating net income while dividends are paid out of net income. Two highly simplified examples will serve to illustrate the principles involved.

Call the acquiring company A, the target company B, and the merged company AB. Assume the following initial situation:

	Shares outstanding	*After-tax earnings*	*Earnings per share*	*P/E*	*Price per share*
A	1,000,000	$1,000,000	$1	40	$40
B	1,000,000	$1,000,000	$1	15	$15

At this point A offers to exchange one share of its stock worth $40 on the market for two shares of B's stock worth $30, giving B's stockholders a gain of $5 a share or 33⅓ percent. But they are not the only winners. Assuming that the merged company continues to have a P/E ratio of 40, the combined result will be the following:

	Shares outstanding	*After-tax earnings*	*Earnings per share*	*P/E*	*Price per share*
AB	1,500,000	$2,000,000	$1.33	40	$53.20

What has happened is that by reducing the total number of shares outstanding from two million to one and a half million, the same amount of earnings produce an increase in earnings per share, and the same P/E ratio yields a higher price for the stock (of which A's stockholders own the same number of shares as before). Everyone, it seems, gains—except B's management which is no longer its own boss and can be kicked out at the whim of A's management. This illustration shows the supreme importance of a high P/E ratio in the merger game and explains the lengths to which its adepts will go to present to the investing and speculating community an image of a super-streamlined perpetual-growth machine. And one of the ironies of the situation is that the more successful they are, the more they can create the appearance of growth (measured by the earnings-per-share yardstick) simply by acquiring more and more companies with lower P/E ratios.

The second example, showing the tax bonanzas that mergers can produce, is adapted from a report headlined "Conglomerate Maze" which appeared on the financial page of the *New York Times* of February 27, 1969. Company A has a million shares outstanding, annual after-tax earnings of \$2 million (\$2 per share), pays no dividends, sells at \$40 a share. Company B has 10 million shares outstanding, earnings of \$30 million after taxes (\$3 a share), pays a dividend of \$1.50, and sells at \$39 a share. A offers for each share of B's stock one debenture (an unsecured bond) with a face value of \$50 and paying interest at the rate of 7½ percent (\$3.75 a year). In order to make the offer more attractive, A also offers to throw in warrants good for the purchase of the merged company's shares in the future, but this does not affect the arithmetic of the immediate situation. B's stockholders thus stand to gain \$11 a share in the value of their securities and \$2.25 a share in their current income. It is assumed that the earnings *before* taxes of the combined company are the same as they were before, i.e., \$64 million. But earnings *after* taxes are now quite different. From the before-tax earnings of \$64 million the merged company deducts interest of \$37.5 million before calculating taxable income of \$26.5 million. After-tax income is therefore now \$13.25 million. Since the only shares now outstanding are the one million of A stock, it follows that per share earnings of A's stock have risen from $2 to $13.25. The losers this time are the U.S. treasury, to the tune of $18.75 million, and of course B's management. A has in effect acquired B by making use of B's own earning power plus generous government financing, and in the process has added handsomely to the value of A's own stock.

By now it should be clear why any conservatively managed company to which the stock market does not assign a particularly high P/E ratio and which does not have a lot of debt in its capital structure is vulnerable to takeover by one of the high-riding conglomerates which does enjoy a fancy P/E ratio and which has no scruples about going in for debt financing in a big way. And what lends special importance to this situation is simply this: *the category of vulnerable corporations includes a very large proportion of the long-established giants which are at the top of the economic and political power structure of the United States.* Discussing what it called the "conglomerate tide" in a recent issue, *Fortune* magazine had the following to say:

> The tide seems virtually unstoppable; even a sharp stock-market decline, Wall Street believes, would probably stay it only for a while. An important force in the movement is the tender offer or takeover bid, in which the aggressor offers the target company's stockholders a price so irresistible that they tender him enough stock for control. Thus the stockholder, relegated by Adolf Berle and other non-contemporary economists to a limbo of impotent ownership, has found himself inadvertently practicing Stockholder Power. . . .
>
> The targets of this aggression are some of the most upright, prudent, powerful, and self-assured corporations in the land. Self-assurance is fading. Proud old names have already been taken over, and dozens of veteran executives have been sacked. Foreboding, frustration, and fear are epidemic in perhaps three out of five big corporate headquarters. Anguished executives who should be minding the shop are instead behaving as if they were up to some underhanded adventure, spending long hours counseling with lawyers, management consultants, proxy specialists, and public-relations men skilled in the art of forefending takeovers. (Gilbert Burck, "The Merger Movement Rides High," *Fortune,* February 1969, pp. 79-80.)

Later in the same article, the author carries the argument to its ultimate conclusion:

Sheer size of the target is no longer an obstacle to a paper takeover. A year or two ago, Wall Street jokers remarked that only General Motors and A.T.&T. were safe, but now some of the experts aren't so sure about G.M. "General Motors," argues one visionary financier, "is in many ways an ideal target. It has a low price-earnings ratio, relatively slow growth, large asset base, lots of cash, and high net worth. It is also shamefully underleveraged [i.e., low debt-to-equity ratio in its capital structure]. Like DuPont, from which it inherited its financial policies, G.M. has little debt. G.M. is thus practically a partner of the federal government, which takes more than half its gross profit. As a matter of fact, some have argued that G.M. should have borrowed billions and bought in a lot of its own stock. This would have raised earnings per share and provided leverage—would have enabled earnings per share to rise faster than earnings as a whole.

"Well, G.M. didn't take on a lot of debt. Now suppose some hero conglomerator printed up $15 billion worth of debentures and maybe another $10 billion in stock and warrants. G.M. stock, which pays $4.30, is selling at around $80. Our hero would offer, say, $125 worth of his securities, paying, say, $5 or $6, for every share of G.M. Once G.M. stockholders realized that I.O.U.'s would really be paid out of G.M.'s own pocket, with the federal government footing part of the bill, they probably would trample over one another in the rush to exchange their shares. This may sound unthinkable. But things just as unthinkable are happening all the time." (*Ibid.,* p. 161.)

At this point we must pause briefly to ask who are these high-flying conglomerators who are thus threatening the inner bastions of U.S. monopoly capitalism. And the answer is that for the most part they are "new men" who entered business after the Second World War in a quite specific way. Unlike such men as Robert McNamara, they did not go into one of the big corporations and work their way up (or if they did go into one of the big corporations, they soon left). They started their own enterprises, often getting in on the ground floor of some of the new technologies like electronics or computers, took advantage of the military-powered economic expansion which began in 1948, and naturally began to expand in proportion to the profitability of their various business ventures. In the course of this process they learned the ways of high finance and began to put together what later became the big conglomerates. Thus, for example, James Ling, the architect of Ling-Temco-Vought (number 38 on *Fortune*'s 1967 list of 500 largest industrial corporations), was a Navy electrician (no college degree) during the Second World War and started his own electrical contracting business after the war. Out of this grew a conglomerate with sales of nearly $2 billion in 1967. In some ways even more important is Litton Industries (number 44 on *Fortune*'s 1967 list) which grew from a company with $3 million sales in 1954 to over $1.5 billion in 1967. What is particularly striking about Litton is that many of the most successful operators started with Litton and, having learned the art, left to do their own conglomerating.*

For the first decade, more or less, of the conglomerate movement, most of the action took place around the periphery of the corporate establishment. A new stratum of the American bourgeoisie was taking shape outside of, but not yet in significant opposition to, what might be called the old aristocracy of wealth and power rooted in the corporate giants which had pushed to the top in the formative period of U.S. monopoly capitalism (roughly 1890-1929). But it was not to be expected that these parvenu multi-millionaires, many of them among the richest men in the country, would be forever content to remain on the outside of the corporate establishment. So, beginning a couple of years ago, they began to encroach, picking off a big company here and there and causing increasing apprehension among the others.

This process and its repercussions can be traced through three incidents: the takeovers of Wilson & Co. and Jones and Laughlin Steel Corporation by Ling-Temco-Vought, and the attempted takeover of Chemical Bank New York Trust Co. by Leasco Data Processing Equipment Corporation.

On the basis of its 1967 sales of $991 million, Wilson & Co., meatpacker and producer of sporting goods, was well within the charmed circle of the 100 largest nonfinancial corporations and bigger than James Ling's entire Ling-Temco-Vought conglomerate. And yet during that year Ling, through an intricate series of maneuvers and financial coups (including a multi-million dollar loan from a European banking syndicate), succeeded in taking over Wilson and in the process jumped

* For details, see "Litton: B-school for Conglomerates," *Business Week*, December 2, 1967.

from number 168 to number 38 in the 500-largest list. Other acquisitions in 1967 included Greatamerica Corporation, itself a diversified company owning, among other things, Braniff Airways. And then, just about a year after swallowing Wilson, Ling pulled off his greatest coup, the takeover of Jones and Laughlin Steel Corporation. J&L is the nation's sixth largest steel producer, a long-established member of what *Business Week* (May 18, 1968) called the "tight-knit steel fraternity," and closely allied to its Pittsburgh neighbors in the Mellon empire. This was a classic case of the tender-offer technique: J&L stock was selling at about $50 a share, and L-T-V offered the stockholders a package worth about $85 a share. The result was a foregone conclusion. L-T-V will probably rank among the 20 largest industrials when J&L is included among its subsidiaries.

It was probably this incident more than anything else that caused the state of near-panic in the corporate board-rooms described in the *Fortune* article quoted above (p. 12). After all, James Ling was the very model of a bourgeois upstart. *Newsweek* (October 9, 1967) began a story about his career as follows:

> It wasn't long ago that Dallas oilmen and other pillars of the Texas Establishment had an instant formula for a barrel of laughs: just mention the name of Jimmy Ling. In air-cooled private clubs 40 floors above the sun-blasted streets, the tycoons would sink into their deep, brown-cowhide chairs and poke a little fun at the rising young corporate merger artist from Hugo, Okla.
>
> "I just won't do business with a Chinaman," one oilman would chortle. "Did you hear?" a second would ask. "He's going to take over Bell Telephone next." "What's he going to call it," a third would ask, "Ting-a-Ling?"

This fast operator, but recently a parvenu even in Texas, had now marched into Pittsburgh. What was to prevent him and others like him from storming the ultimate bastions on Wall Street and Park Avenue? The answer was not long in coming and, as could have been predicted, it had two parts. On the one hand, the corporate establishment began to bring its enormous financial power into play; on the other hand, it called on its faithful servants in the seats of government to wake up and do their job.

Both parts of the answer were dramatically illustrated by the abortive attempt of Leasco Data Processing Equipment Corporation, a company built up by a 29-year-old financial "wizard" named Saul Steinberg, to take over the Chemical Bank of New York. Leasco operates in and around the computer industry and owns a big insurance company. Though growing rapidly, it was not large enough to be listed anywhere in *Fortune*'s 1968 directory of largest corporations (issue dated May 1, 1968). Chemical Bank (formerly Chemical Bank New York Trust Company), on the other hand, was listed as the nation's sixth largest bank with assets of $8.4 billion. In February 1969, Leasco mounted an attack on Chemical and was obviously preparing the *coup de grâce* of a generous tender offer to Chemical's stockholders. Before the end of the month, however, Steinberg was forced to admit defeat. At the time, the reports in the business press were brief and largely bare of detail. But a couple of months later the real story came out. Here are excerpts from *Business Week*'s article entitled "Why Leasco Failed to Net Chemical" in the issue of April 26th (the whole article is worth reading):

"I always knew there was an Establishment," says Saul P. Steinberg, the chubby, 29-year-old multimillionaire chairman of Leasco Data Processing Equipment Corp. "I just used to think I was part of it."

Leasco's abortive play last February for giant Chemical Bank of New York threw Steinberg against the real establishment of big, conservative money—a confrontation so jarring that Wall Street still clucks about it. In the end, says a Wall Street friend, "Saul found out there really is a back room where the big boys sit and smoke their long cigars." . . .

Chemical Bank is old, rich (sixth-biggest commercial bank in the U. S. with $9 billion in assets), and very powerful. It is a money market bank—a lender to many of the bluest of blue-chip corporations and a big dealer in U.S. government securities. On its board sit top executives of such companies as AT&T, DuPont, IBM, Sears, U.S. Steel, Olin Mathieson, Uniroyal, New York Life, and Equitable Life.

Never has so mighty a bank fallen to an outsider. To Chemical Bank, and to many of its best customers, Steinberg—young, sometimes brash, a Johnny-come-lately, and Jewish to boot—was very much an outsider. "Chemical," says a rival banker, "was afraid of losing a lot of its corporate and personal trust business if Leasco took over. Those people wouldn't sit still for a Steinberg."

The bank was apparently threatened with the loss of some business, by customers who didn't want a non-banker in a position to know so much about their financial affairs. . . .

Wall Street's choicest gossip for weeks has dealt with what happened during those 15 days [in February]—or what it thinks happened. . . . One thing that did happen was that Leasco's stock plunged from 140 to 106 in two weeks—driven down, many on Wall Street believe, as bank trust departments sold what Leasco shares they held. . . .

At least one computer-leasing customer—and perhaps more—apparently threatened to take its business elsewhere if Leasco actually made a bid for Chemical Bank. Leasco's prime investment banker, White, Weld & Co., told Steinberg on Feb. 7 that he would have to try to take over Chemical Bank without that firm's help.

Investment banker Lehman Bros. admits that it was pressured by commercial banks to not help Leasco—a ticklish situation since Lehman is a heavy borrower of bank money.

The nation's big banks, rocked by the thought of one of their number being taken over, did cluster together to create what one banker calls "a massive groundswell of opposition that was felt in Washington and Albany. The whole industry was aghast."

In Washington, Chemical Bank found support high up in the Nixon administration, in Congress, and among the financial regulators. In Albany, New York Governor Nelson Rockefeller asked for immediate legislation to shield banks in the state from takeover. A comparable bill, covering national banks, was introduced in Congress on Feb. 28 by Senator John J. Sparkman (D-Ala.), chairman of the Senate Banking and Currency Committee.

It isn't clear how much of a hand Chemical Bank had in all this. In fact, as one man on Wall Street points out, "Chemical didn't have to do very much. It had so many friends, and every one wanted to help."

As it turned out, the corporate establishment's counterattack in the Leasco-Chemical affair was only the opening salvo in a full-scale campaign to put the parvenus in their place. During the week of March 24th, the Justice Department, in what *Business Week* (March 29) called "Washington's first all-out assault on the merger-hungry giants," filed an anti-trust suit to separate Jones and Laughlin from Ling-Temco-Vought, and at the same time forced Ling to accept an agreement whereby, pending the outcome of the suit, J&L would be maintained as an organizationally independent entity, so that if the government wins J&L can be shifted to new ownership with a minimum of difficulty. Ling, it seems, is to be made to pay for approaching as near as Pittsburgh to the inner sanctum.

Finally, *Fortune,* in its "Report from Washington" column in the issue of May 1, really pulled the curtain aside and showed what has been and is going on behind the scenes. Here are excerpts from another piece (captioned, appropriately enough, "It's open season on conglomerates, and established business couldn't be happier") which deserves to be read in full:

Washington in recent years has shown about as much interest in conglomerate mergers as in the prospects of the Washington Senators baseball team. The Justice Department under Lyndon Johnson did not view conglomerates as much of a threat to competition, and the Federal Trade Commission, after blocking Procter & Gamble's takeover of Clorox in 1967, became passive. . . .

Today, by contrast, antitrust and conglomerates would seem to rank only behind Vietnam, the ABM, and inflation in the capital's interest. A dozen federal investigations are under way into the antitrust aspects of conglomerate mergers. A slew of bills are before Congress to block airline and railroad mergers. Representative Wilbur Mills has introduced a bill to remove tax incentives to takeovers. Banking conglomerates . . . are the target of strict administration legislative proposals. For his part, the government's new trustbuster, Assistant Attorney General Richard McLaren, has launched this spring a broad legal attack against mergers. Of twelve recent large conglomerate mergers, five have been challenged by the government.

The result—not wholly unintended, perhaps—of these myriad federal moves was to knock more than $5 billion (21 percent) off the market value of thirteen conglomerates' shares between January 27 and March 24 and, consequently, dampen their merger potential. . . .

This sudden free-form, uncoordinated attack on mergers has surprised even such dedicated antitrust Democrats as Representative Emmanuel Celler of New York and Senator Philip Hart of Michigan, who chair, respectively, the House and Senate judiciary subcommittees on antitrust. "I never thought that I would see the day when the business community would be pleading with the federal government for an investigation of business. But that is exactly what has resulted from the merger practices of some of our leading corporations." . . .

The events that triggered Washington into action are not hard to discern. It was not the number of mergers or the concentration ratios, but rather the threat to the established way of doing corporate business. "For years nobody paid a damn bit of attention to my antitrust hearings. But now such nice people are being swallowed up," says Senator Hart. . . .

Despite the near unanimity in the capital about the present dangers of mergers, there is in some quarters considerable support for James Ling's complaints about Washington's "conglomerate syndrome." . . . Even Senator Hart notes acidly that many of the proposals are not "referring to established conglomerates like General Electric, or R.C.A. or I.T.T. They are referring to the brand-new ones who are threatening the old-line companies." . . .

So much, then, for the attempts of the parvenu outsiders to crash the corporate establishment. They threw a scare into the big boys all right, but the latter now seem to be in the process of demonstrating that they still have what it takes to maintain a monopoly of real power in corporate America.

What lessons are the underprivileged multi-millionaires likely to derive from this experience? We don't know for sure as yet, of course. But it does seem likely that they will draw the obvious inference that economic and political power cannot be separated. If you want the one, you must aim also for the other. This consideration may lead them next time to try first of all to get control of the crucial legislative and bureaucratic agencies in Washington which could help rather than block future forays into the inner corporate circle. And for this they would need a political instrument to use against the corporate-establishment-controlled Republican and Democratic parties.

Upstart capital has always been an important source of financial support for fascist-type movements which seek to harness popular discontent and resentments to overturn existing political structures. The story recounted here of the rise and frustration of the new conglomerators may therefore have as a sequel a significant strengthening of the fascist tendencies which George Wallace's 1968 presidential campaign showed to be already well developed in certain regions of the country and strata of the population. The other side of the coin might well be that old wealth, fearful of the implications for its own power of a fascist victory, would cling more closely than ever to its tried-and-true political weapons.

But all we can say for certain at this stage is that the course of the great merger movement of the 1950's and 1960's seems certain to complicate what already promises to be a very confused and uncertain political situation in the period ahead.

(May 18, 1969)

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