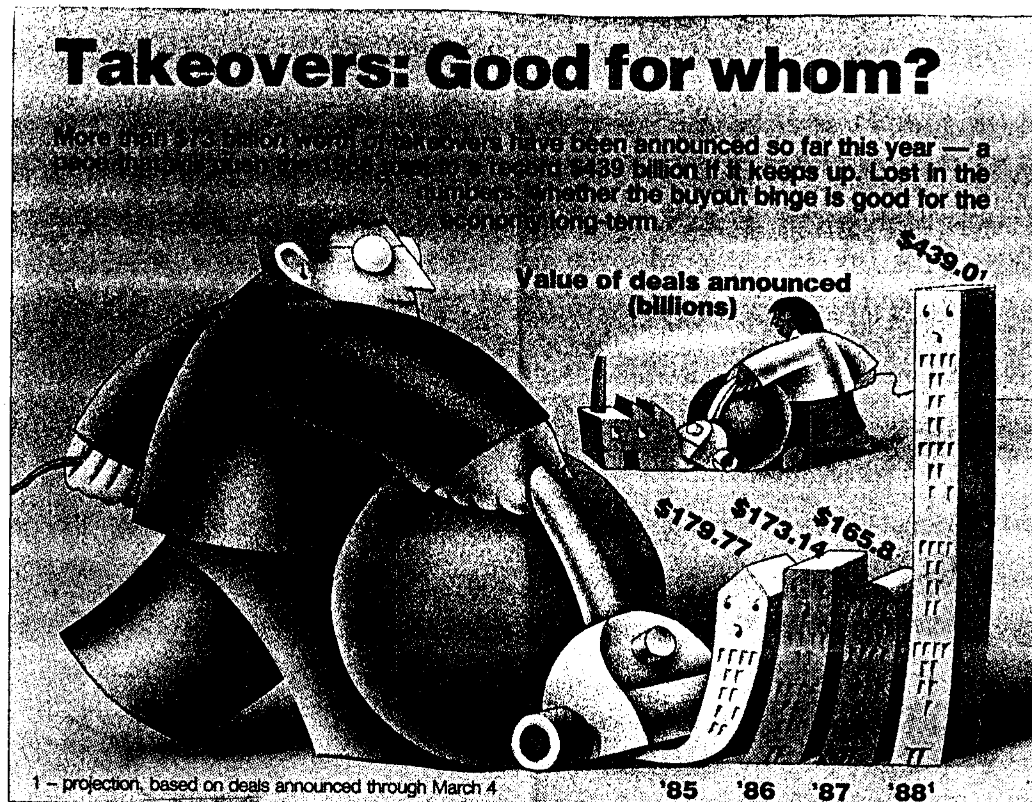

Biggest deals

The biggest takeover offers so far this year:

Bidder(s)	Target	Value
R.H. Macy/Campeau	Federated Dept. Stores	$6.1B
Eastman Kodak	Sterling Drug	$5.1B
B.A.T. Industries	Farmers Group	$4.4B
Black & Decker	American Standard	$2.3B
Wagner & Brown	USG Corp.	$1.9B
Mesa Ltd. Partnership	Homestake Mining	$1.9B
Dun and Bradstreet	I.M.S. International	$1.8B
GIANT Group	Media General	$1.75B
GAF management	GAF Corp.	$1.4B
Beazer PLC	Koppers Co.	$1.3B

Source: *IDD Information Services*, W.T. Grimm & Co. By Bob Laird, USA TODAY

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COVER STORY

Merger wave might drown our economy

The plunge of dollar, drop in stock prices and lower interest rates fuel takeovers

By Daniel Kadlec
USA TODAY

NEW YORK — This year's takeover mania makes it look like all of the USA is suddenly for sale.

The question that's just starting to hit home: As we watch corporate takeovers mushroom, are we also watching the sale of our economic future?

More than 230 takeovers worth $73 billion have been announced so far this year — including both friendly and hostile deals. If that pace were to continue, the value of deals announced would reach an incredible $439 billion in 1988.

Even if the pace slows, the takeover total this year seems certain to surpass the 1985 record of almost $180 billion.

Shareholders are getting rich. But critics of the takeover wave say it may end in economic disaster. They say USA companies are frittering away precious energy and talent doing deals — or evading them — instead of creating new products and new jobs. And the critics worry that the trend toward corporate "bigness" will lead to a dangerous concentration of power.

Supporters of takeovers, however, say many such deals make sense because their aim is to make USA companies bigger and more efficient in the global marketplace. "Ultimately, this may be the only way for us to compete effectively with the Japanese," says Richard Wese, dean of the graduate school of business at New York University.

The truth about takeovers probably lies somewhere in between. Either way, it's going to be little solace to many people. Consider: Many middle managers and other workers are likely to lose their jobs as mergers are completed.

"It's a concern," says Robert Shapiro, chief of investment bankers RFS Associates in New York. "As you get more and

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COVER STORY

Merger wave might drown our economy

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more concentration of power, inevitably you start to eliminate a lot of jobs, which has a negative impact on the economy."

The brokerage industry, for example, has undergone heavy consolidation in the last six months. So far, about 15,000 jobs have been cut as brokerages have merged or cut back. Many managers, clerks, traders and analysts are having trouble landing other jobs in their chosen field.

Another major concern: Consumers may find they'll pay more for products because competition has been lessened by mergers. "When consolidation leads to the ability to extract higher than the competitive price from the consumer, everybody is worse off," says Campbell Harvey, professor of finance at Duke University.

Concerns about jobs and prices, however, aren't likely to stop the takeover wave soon. The frenzied pace of dealmaking is being fueled by a convergence of several factors, including:

- ▶ Heightened foreign interest in USA assets because of the dollar's plunge, which has made property here cheap.
- ▶ President Reagan's *laissez-faire* attitude toward mergers.
- ▶ Lower stock prices in the wake of Black Monday.
- ▶ Low interest rates, making financing easy to come by.

Experts point out, however, that those factors are cyclical. At some point the dollar will rebound; interest rates will climb, and a new president may be tougher on antitrust laws. And so the merger wave will dissipate in time.

Indeed, "The view that everything is for sale has been around a while," says Katherine Schipper, professor of accounting at the University of Chicago graduate business school. "Periodic increases and decreases in merger activity have characterized the American economy for some time."

The bigger-is-better syndrome of the 1960s, for example, produced many conglomerate corporations. A good number of them — such as Gulf+Western Inc. — have since unwound themselves.

But many of today's takeovers are within the same industry. Retailers Campeau Corp. and R.H. Macy & Co. are in a war for control of Federated Department Stores Inc., for example. Whichever company wins will emerge a much larger chain of department stores, potentially with a much better ability to control prices in the industry. "That is an example of the kind of merger I worry about," says Duke's Harvey.

Beyond the economic worries is another, perhaps more important question: Do companies really know what they're doing, spending billions of dollars for other companies?

A statistic that alarms Moon Landrieu, former New Orleans mayor and chairman of a group called Stop the Raid on America: In 1987, takeovers worth $165.8 billion were announced. In the same year, USA businesses were estimated to have allocated $390 billion for capital spending to buy machinery and build plants.

So takeover spending amounted to almost half the amount spent on capital expansion. Imagine what some of those takeover billions could have accomplished if they were invested in new equipment and plants, takeover critics argue.

"There is an enormous emphasis today on acquiring already existing assets rather than on the creative energy this country has been known for," Landrieu complains.

Wall Street's investment bankers — who in large measure rely on deals for their incomes — argue that stock prices have been bargains since the October crash. So, it's simply smart business to buy rather than build, they insist.

But, asks Fred Brengel, chairman of Johnson Controls Inc.: "Who's to say (stock) prices weren't too high in October?" In other words, corporate managers could be deluding themselves about the "value" in stock prices.

Still, companies can argue forcefully that many mergers do make sense — particularly when a firm is buying a business it

Still, companies can argue forcefully that many mergers do make sense — particularly when a firm is buying a business it already understands and can integrate it with its own operations, to improve efficiency. Thus, it truly may be cheaper to buy than to build. And our economy should be better off long-term if our companies can compete more efficiently in the world market.

When mergers make sense, says Ronald Speyer of Geneva Business Services, which gives merger advice to small companies, many of the parties involved are winners: The acquiring company expands, and becomes more efficient and competitive; the research and development staff at the acquired company may have access to a bigger research budget; and the shareholders (or entrepreneurs) who sold have a fistful of cash they can use to invest in other businesses.

"You could say we're just moving assets around," Speyer says. "But it's still producing profits and income for people. The individual who does cash out usually reinvests those assets, and that benefits the economy."

Still, many are hard pressed to agree — especially those companies under siege: "This frenetic takeover activity is contrary to industrial competitiveness in the United States," says James Kinnear, chief of embattled Texaco Inc. "All we're doing is making a bunch of bankers and lawyers rich."