EVERYBODY'S BUSINESS

By David Kotz

Is the merger craze just plain crazy?

The previous Everybody's Business (May 6) analyzed the reasons for the wave of corporate mergers now gripping the American economy. Is the merger wave something to be condemned or welcomed?

Effects of the merger wave: Many of the recent mergers have been of the horizontal type, where companies producing similar products combine. Previously heavily circumscribed by antitrust authorities, such mergers have been freely allowed under the Reagan administration. They are the ones for which the strongest case can be made for social benefits, in the form of economies of large-scale production.

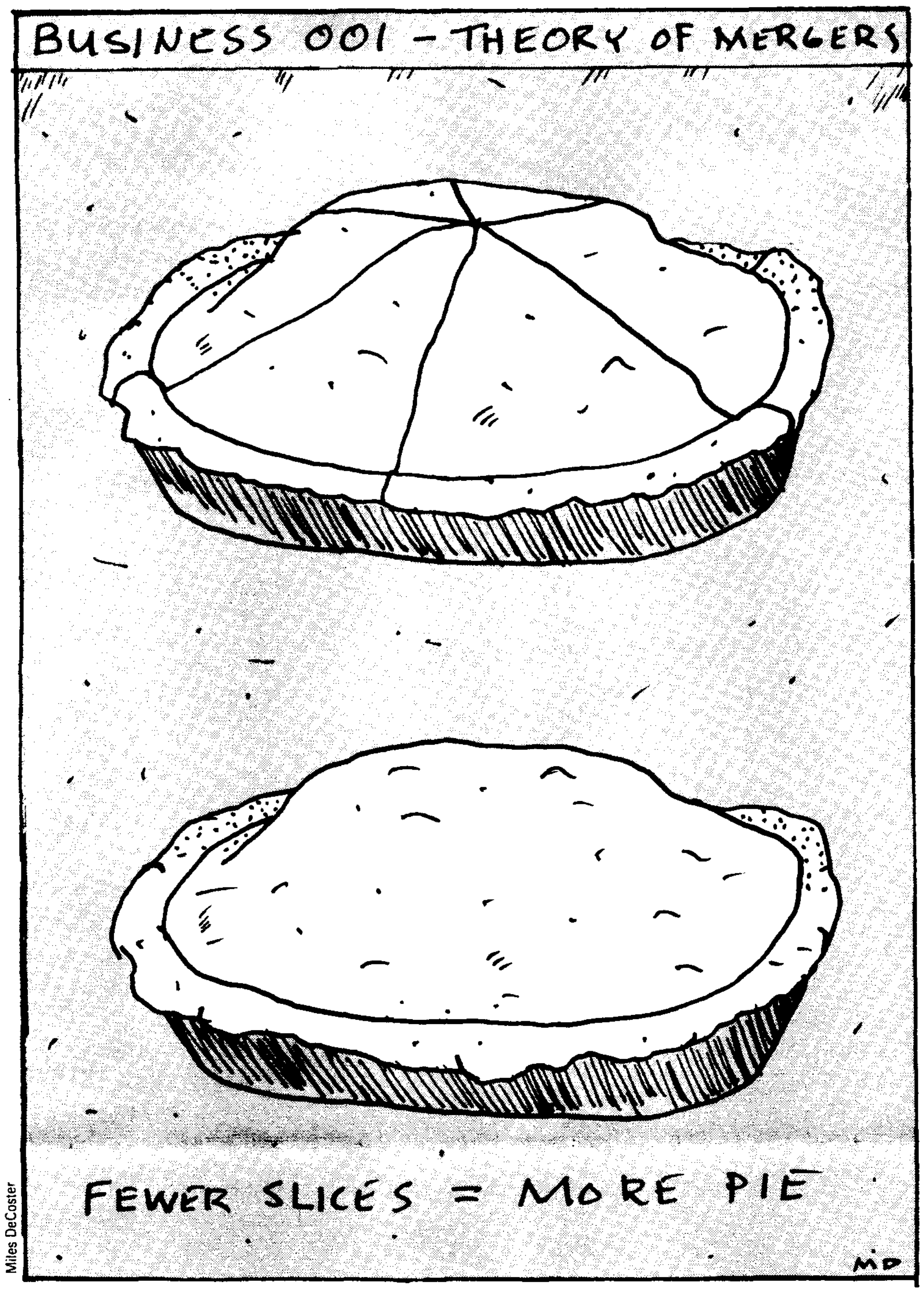
Japanese steel companies have been able to outcompete American steel companies partly by building larger, more efficient plants. And in recent years, three of the large American steel companies were combined—Jones and Laughlin, Youngstown and Republic—under the auspices of LTV Corporation, with promises of efficiencies that would enable the American steel industry, and the steel labor force, to survive. But instead LTV's steel business dragged the company into bankruptcy last July, despite the highly profitable aerospace contracts of the parent company.

It is too early for good statistical studies to be available on the efficiency outcomes of the '80s mergers. The best studies on the mergers of the '60s and '70s found no significant gains, although fewer of the mergers in that era were horizontal, the type most likely to yield positive results. Even so, the strong speculative and monopoly-seeking motives surrounding the '80s merger wave suggests that efficiency gains are not likely to be a major outcome.

So far the effects of recent mergers appear to be largely negative, bound to increase monopoly power. The conservative faith that high market concentration does not spell monopoly power conflicts with the great bulk of empirical evidence, which shows that fewer competitors means higher profits and translates into the power to transfer real income from smaller, more competitive capitalists and from workers.

The merger wave is also certain to increase the overall concentration of resources among the largest corporations. This increases the already vast political and social power of big capital. And as more and more small, local businesses are gobbled up by large conglomerates, workers and communities can expect greater uncertainty and instability. Locally owned businesses are, of course, still capitalist enterprises primarily concerned with making profits. But locally based capitalists usually have some commitment to their communities and are not so readily able to leave if wages or taxes are not adjusted in their favor. Acquisition by a large national or international conglomerate eliminates local ties, turning the business into more of a pure unit of capital, free of any community ties that might limit its labor or locational policies.

Do mergers reduce productive investment? Populists complain that mergers, along with other speculative purchases of existing assets, reduce efficiency and destroy jobs by wasting capital that might otherwise have gone into building more and better productive facilities.



Miles DeCoster

Mainstream economists reject that argument, countering it with the observation that money capital spent for acquisition of existing assets is not really used up. Rather, the funds are transferred to whomever sold the asset, and are still potentially available for someone to use for real productive investment.

The mainstream objection is valid as far as it goes; speculation does not directly "use up" capital. But the complacency of mainstream economists is unjustified. Mergers and other forms of speculation can, indeed, through more indirect routes, reduce the level of productive investment.

First, real productive investment in modern capitalism is done chiefly by corporations, using funds from retained earnings or from lenders. When corporations use the funds from such sources for speculative purposes, those funds may never find their way back into productive investment. Individual sellers of assets, enriched by their sales, may increase their consumption of yachts and vacation homes; or the proceeds of speculative sales may simply be placed in financial investments, bidding up the prices of existing stocks, bonds or land.

Theoretically such financial investments could trickle back into corporations as loans. But the merger process is to a large extent financed by various forms of borrowing. This process increases the indebtedness of corporations, making them a riskier prospect for further loans. General Motors, for example, recently announced a plan to buy back 20 percent of its own stock. Although GM officials deny it, outside analysts report that the buyback will have to be financed largely by borrowing, which would make GM more vulnerable to recessions and a poorer risk for the high level of capital borrowing needed to keep up with the Japanese companies' efficient production systems. Similarly, the huge debt taken on by oil companies to acquire one another will be an obstacle if further funds are needed for exploration.

The high profits that can be made from mergers tend to divert money and attention from productive investments. Venture capital firms have in recent years raised money from wealthy investors to supply funds to promising new firms experimenting with new technologies. But more than one-third of the funds raised by venture capital firms last year reportedly went to underwrite leveraged buyouts rather than technological innovation.

When top corporate managers become obsessed with mergers and other speculative endeavors, this inevitably diverts their attention from the alternative of spending funds for productive investment. Even companies that might prefer to avoid the merger frenzy are damaged by it. Specialists in unfriendly takeover campaigns, such as T. Boone Pickens, often cripple companies with their usually unsuccessful, but always lucrative, takeover efforts. The unwilling target company usually must incur large debts to fend off the takeover. At recent congressional hearings James E. Harfield, president of the union representing workers at Owens-Corning Fiberglas, listed the damage caused by Wickes Corporation's unsuccessful raid last year. He reported that the $2.6 billion debt taken on by Owens-Corning to defeat the raider is now leading to the closing of previously profitable plants and the cutting in half of R&D activities.

A socialist policy on mergers: A century ago many socialists thought that mergers were a progressive development. And, indeed, in that stage of capitalism mergers were creating the first corporations large enough, and far-sighted enough, to develop and utilize advanced technologies, and powerful enough to suppress destructive cutthroat competition. But in the already highly monopolized economy of the late 20th century, mergers generally do not have such a progressive character. Today they are largely driven by a combination of speculative motives and the pursuit of even greater monopoly power in a context of already very limited competition.

Socialists should support strict controls on mergers. The participants in any sizeable proposed merger should have to demonstrate that the merger would not increase monopoly power, destroy productive jobs or undermine local communities. The potentially affected parties should be accorded the right to testify on such matters. Where demonstrable social benefits would result from mergers, injured parties should have the right to compensation if the merger is permitted. An otherwise justifiable merger that also increases monopoly power should be permitted only with special public oversight over the ongoing operations of the merged company.

Such a policy would prevent many socially harmful mergers. It would also promote the principle that corporate property is social property, subject to social intervention to protect interests of workers, smaller businesses and communities. Furthermore, by lengthening the time required to consummate a merger and making the process more open, it would wipe out much of the speculative motive for mergers, which depends on "beating the market" by being able to act quickly and secretly at the right moment.

Mergers and other speculative investments are an inevitable aspect of capitalism. Allowing private individuals to own society's means of production as their private property does, as Marx long ago noted, produce certain social benefits, as capitalist self-interest propels the continual development and advance of the production process, resulting in growth of material output. But the same profit motive that can lead to economic progress also leads to a variety of socially wasteful and irrational processes, of which mergers and speculation are a prime example.

If greater profit can be made by shuffling ownership of existing assets than by producing more real assets, then that is what the logic of capitalism dictates the capitalists must do. In certain periods, such as the current one, this ownership shuffling mushrooms to enormous proportions. A fundamental mistake of populists is the belief that somehow the unproductive side of capitalism can be abolished while retaining its productive side. While it is possible to control such processes to some extent through social oversight, it is not possible to eliminate them. Only full social ownership and control can turn the means of production into a genuine servant of humankind. ■

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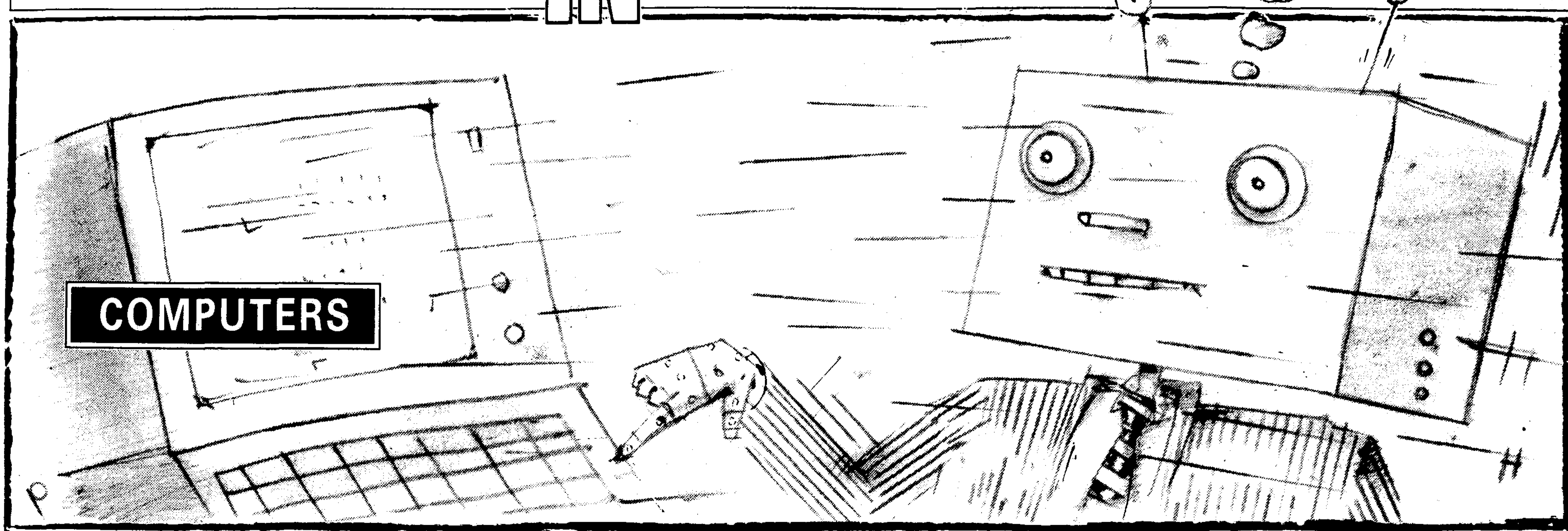

Baudy tales and byting yarns

The Cult of Information: The Folklore of Computers and the True Art of Thinking
By Theodore Roszak
Pantheon, 238 pp., $7.95

By John Magney

THE COMPUTER REVOLUTION HAS lost some of its media magic during the past couple of years. A prolonged sales slump, even for the mighty IBM (though IBM has tried to regain markeplace momentum with a new line of microcomputers; see *In These Times*, April 15), has cut into the value of most computer stocks. Dozens of companies have gone belly-up or been swallowed. And the effort to build an ever-expanding home market for computers has been largely abandoned.

Along with the slowdown in sales has come a growing recognition of the problems associated with computer technology. Contrary to its "clean" image, manufacture of the technology involves the generation of highly toxic wastes. The computerization of work systems often results in degraded job skills and the displacement of workers. And these systems may or may not function as intended; breakdowns caused by software flaws occur with troublesome regularity.

The popular press has given us bits and pieces of the story. But to get a fuller picture of what computer technology is doing to us (as well as for us), one has to turn to trade and academic publications. Or to studies using these specialized sources, such as Theodore Roszak's *The Cult of Information*.

Roszak covers a broad range of issues. He examines the unique intellectual perspectives of information theory and artificial intelligence, considers predictions of futurologists about our movement toward an "information economy" and probes the uses and misuses of computers in politics, schools and the military. He also includes many interesting snippets on the history of modern computing.

Simple-minded futurists: Roszak's criticisms are often right on the mark. He dismisses the views of Alvin Toffler, John Naisbitt and other contemporary futurologists for their simple-minded concept of social change. And this is as it should be. Our future as a society is not an open book. Although it's probably safe to say that information technology will play an increasingly dominant role in our lives, how this takes place will depend on developments within the technology as well as political choices and a host of other factors.

Perhaps the hottest current issue in the computing community is artificial intelligence. The idea, of course, is an old one. For years science fiction writers have been creating machines encompassing human thought processes. And now many computer researchers are trying to do the same thing. But, as Roszak points out, their accomplishments have been rather limited. They have successfully modeled the diagnostic work of medical doctors and experts in other fields. But that's about it. There's little indication we'll see any truly artificial intelligence for the foreseeable future.

The work on artificial intelligence, as with much earlier research in computing, has been strongly supported by military funding agencies. Over the years, computer scientists have accepted the defense dollars without much questioning, though, as Roszak notes, there have been some notable exceptions. Norbert Wiener, the famed MIT mathematician and popularizer of computer cybernetics, staunchly opposed military exploitation of the new technology. More recently, a number of top academic computing professionals have roundly criticized the planned Strategic Defense Initiative.

Although the military and its corporate partners have generally dominated the development of computer technology, a few important breakthroughs have occurred elsewhere. The invention of the microcomputer, of course, is the classic case. Here the creative force was a curious assemblage of electronic hobbyists, hippie hackers and sharp-eyed entrepreneurs. Roszak's account of this development glosses over the entrepreneurs' role, but it's not a major omission, since their part of the story has been repeated *ad nauseum* in the business press.

School systems analysis: The incredibly rapid diffusion of microcomputer technology through the country in the early '80s created a raft of adjustment problems, especially for our educational institutions. All of a sudden, school systems were confronted with a massive demand for training and education in the new technology. Roszak's discussion of how the schools have responded is one of the book's weaker points. Although he correctly criticizes the value of much educational software, he appears to be totally unfamiliar with the extensive research on the cognitive effects of computerized education. He also shows little understanding of why the schools are working with the new technology.

As with other critics on the left, Roszak expresses considerable fear and loathing about the potential threats to civil liberties inherent in computer technology. It's certainly an appropriate fear. Computer-based surveillance systems can be frighteningly effective. But, as MIT social scientist Gary Marx and computer security consultant Sanford Sherizen pointed out in a recent article in *Technology Review*, electronic surveillance can also create serious administrative problems, especially when used to monitor work conduct. There are cases where it has been abandoned because of these problems.

The Cult of Information covers a lot of ground, and should be read by anyone wanting an insightful analysis of the problem-side of the new computer technology. Although it touches on some of the same points dealt with in other recent studies, most notably Lenny Siegel's and John Markoff's *The High Cost of High Tech*, it is a valuable contribution to the growing critical literature on high tech. ■

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Ethics take a back seat when inside dopes like Boesky rule the street

The Insiders: The Truth Behind the Scandal Rocking Wall Street
By Mark Stevens
G.P. Putnam, 256 pp., $18.95

By G. Pascal Zachary

ONE OF THE MOST STRIKING aspects of the insider stock trading scandal is how small an effect this unfolding story has had on the investment habits of stockholders. Ivan Boesky, one of the top traders on Wall Street, has been nailed by the government for trading on illegal inside information, yet stock prices continue their upward march as investors plow billions into U.S. stock markets. If, as Mark Stevens believes, the markets are "more like rigged casinos," why haven't investors grown tired of playing a one-sided game?

Stevens doesn't attempt to answer this conundrum in *The Insiders: the Truth Behind the Scandal Rocking Wall Street*. A veteran business writer, Stevens has a less ambitious agenda for his book, which chronicles several of the more notorious insider scandals of recent years.

While short on analysis, Stevens goes further than most commentators who use the "bad apple" theory to explain the seeming surge of stock trading based on insider information. He asserts that insider trading is the rule on Wall Street, where traders at big-time investment firms are part of "a lawless culture willing to pay a hefty bounty for confidential data."

Inside dope has always been valuable to stock traders. But in our era of unprecedented corporate takeovers, this information is more valuable than ever. "Gaining advance news here," writes Stevens, referring to tips about impending but still unannounced acquisition offers, "can mean almost instant profits—tens of millions of dollars in a matter of days or hours." These offers, when publicly disclosed, invariably drive up the stock price of the hunted company, benefitting insider traders who bought stock on the hush-hush.

The ethical slide: In Stevens' view, the failure of Wall Street's top investment firms to police their

WALL STREET

own ranks marks "a new low in American capitalism. The decline of ethics and morality and gentlemanly business practices—which once had their place in the premier investment banks—coincided with the shift of power in the corporate world from the Fortune 500 chief executives to the takeover sharks who prey on them."

This ascendant class of sharks lacks even the rudiments of ethics. Boesky voiced their credo in a 1985 speech to graduates of Cal Berkeley's business school: "I think greed is healthy," he said reassuringly. "You can be greedy and still