M&As' success equals economic catastrophe

by Marcia Merry Baker

Shown in **Figure 1** is the rise of money flows during the 1980s and 1990s, into U.S. "mergers and acquisitions" of corporations. Over most of those years, significantly more money has flowed into the activity of M&As, than, for example, investment into new manufacturing plant and equipment. This M&A "boom" is, in turn, associated with thousands of episodes of stock run-ups, feeding the stock market boom, while the real physical economic base of the United States has been shrunk to the point of catastrophe. Many companies not involved in a merger or takeover, cut back activities in order to keep up with the times.

The simplest marker of this economic takedown is the elimination of jobs, considered grounds for praise, and rising stock values by Wall Street. **Table 1** lists some of the better-known mergers, acquisitions, and downsizings of the M&A madness, and the number of jobs eliminated in connection with them. The listings typify what happened across all sectors of the U.S. economy, from heavy industry, to food processing and distribution, to hospitals and banks.

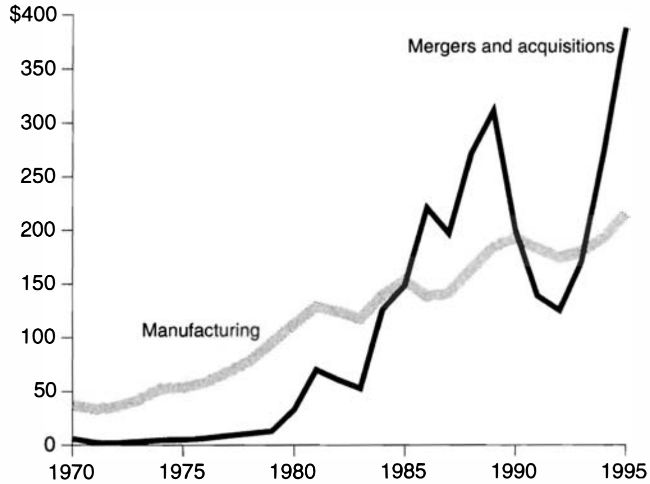
In 1970, the total annual volume of M&As was $6 billion; it did not break $10 billion per year until 1976; and was still below $50 billion per year in 1980. Then, M&As took off: By 1989, the annual volume exceeded $300 billion; in 1990, when Michael Milken, the takeover specialist, was arrested for fraud, there was a crash. Soon thereafter, the craze resumed, and, in 1995, the volume of M&A activity was $388 billion.

Cumulatively, over the 25 years from 1970 through 1995, mergers and acquisitions absorbed a vast $2.85 trillion. In most cases, the financing of M&As involved huge amounts of debts, and the shutdown of productive facilities and services.

However, look just at the typical pattern of job losses and rising stock values, with a classic example being Scott Paper-Kimberly Clark. In December 1995, Kimberly Clark acquired Scott Paper. Considered a Wall Street success story, the basis for the acquisition was drastic cost-cutting and downsizing of Scott Paper, over the prior 20 months, by Al Dunlap, who became chief executive officer in April 1991. Within two months, Dunlap announced a restructuring plan involving mass layoffs of 11,200 workers—35% of Scott Paper's workforce—and similar radical measures. Over the ensuing 12 months, Scott Paper's stock more than doubled in price. Dunlap proceeded to hollow out the company by cutting R&D, staff training, and much else. In June 1995, Scott Paper officially entered merger talks with Kimberly Clark, and their stock values rose. The deal was struck at the end of the year.

Dunlap has since become known as "Chainsaw Al" and the "Corporate Shredder," for his destructive policies, and his pride in imposing them. His actions are representative of the pattern of mergers and acquisitions, one of the famous "causes" of the stock market boom.

FIGURE 1
Mergers and acquisitions versus new manufacturing plant and equipment
(billions $)



Sources: *M&A Almanac,* published by IDD Enterprises; U.S. Department of Commerce, Bureau of the Census.

TABLE 1
Some mergers, acquisitions, downsizings, 1980s-90s

Company	Number of jobs eliminated
Kohlberg Kravis Roberts leveraged buyout of Safeway, 1986	13,000 directly; 5,000 later
General Dynamics, selloff of units, 1991-93	30,440
Columbia/HCA formed in 1994 merger; proceeded to acquire local hospitals	5,000 estimated
Kimberly-Clark buyout of Scott Paper, 1995 (and prior)	11,200
Mobil Oil, downsizing announcement, May 2, 1995	4,700
Chemical Bank-Chase Manhattan merger announcement, August 1995	12,000
AT&T downsizing announcement, Jan. 2, 1996 (AT&T took over NCR Corp., 1991)	40,000