Special Issue: *Scandalous Revelations The Press Ignored, Pps. 1—4*

The Economic and Political Menace in The Growth of Conglomerate Corporations

Explosive growth by acquisition by our largest corporations has resulted in changes that confront the public with a situation where the American economy will be dominated by virtually self-contained economic domains . . . dominated by a few hundred business suzerainties and under whose influence a multitude of small, weak, quasi-independent corporations will be permitted a subordinate and supplementary role.

—House Judiciary report on Conglomerates, Sept. 7.

You cannot preserve political liberty, you cannot secure American standards of living, unless some degree of industrial liberty accompanies it.

—Louis D. Brandeis testifying in the 1911 Senate hearings which led to passage of the Clayton Anti-Trust Act.

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U.S. Capitalism's Dirty Underwear

While President Nixon was celebrating Labor Day with a Billy Graham-style sermon on the work-ethic, the really best way to make a fast buck was being explained by a Congressional committee staff report. Unfortunately it got very little attention. The report summed up the findings of an investigation begun almost three years ago by the anti-trust subcommittee of House Judiciary into the sharp rise in recent years of conglomerate corporations. These monstrous concerns bring together under one corporate roof the most diverse kinds of enterprise. Since 1965 they have grown with unprecedented speed. In the four years 1965-68 conglomerates absorbed more assets in manufacturing and mining than in the preceding two decades. This was one of the byproducts of the Vietnam war, though the report does not connect the two. The inflation and the speculative fever the war engendered alone made it possible for shrewd operators to buy up other businesses at inflated values and then recoup with "growth stocks" on a booming stock market.

Corrupting Business Management

In the pages of this study, the young can see the morals and mores which mold our economy and threaten some day to remold our politics. For as corporate concentration grows, the threat of a corporate state grows with it. The 100 largest manufacturing concerns today hold about half the total assets devoted to manufacturing; their share is as big as that held 20 years ago by the 200 largest. The problem created is two-fold—one is that of domination and the other of corruption. These conglomerates are feudal empires which can cushion themselves against competition by internal deals and by reciprocal favoritism. At the same time their creators corrupt business management by various forms of what can only be called bribery to bring about mergers. They divert managerial energy from productive enterprise to stock speculation. They claim to be imaginative innovators in technology, but the one technology in which they really excel is public relations, i.e. flim-flam. The situation is not improved by the fact that some of the biggest conglomerates depend for their viability on Pentagon orders and continuation of the arms race.

The report shows how insurance companies are taken over so their surpluses can be used for speculation, how balance sheets are manipulated to make hazardously inflated investment look like "growth", how weakly the SEC and the Stock Exchanges deal with these falsifications, how banks use their trust departments to help their conglomerate satellites on corporate raids, though the trust accounts are supposed to be kept strictly separate from the commercial departments. Yet these disclosures were hastily brushed under the rug in skimpy stories buried in the back pages even of leading papers like the *New York Times*, *The Wall St. Journal*, and the *Washington Post* September 7 while little if anything appeared in most of the country's newspapers*.

Kefauver's Prophetic Warning

We must decide very quickly what sort of country we want to live in. This Nation was founded and built by men who believed in individualism. It has grown under a system carried on largely by individual capital. The increased concentration of economic power is dooming free enterprise. The present trend of great corporations to increase their economic power is the antithesis of meritorious competitive development. It is no accident that we now have a big government, big labor unions and big business. . . . Local economic independence cannot be preserved in the face of consolidations such as we have had during the past few years. The control of American business is steadily being transferred from local communities to a few large cities in which central managers decide the policies and the fate of the far-flung enterprises they control. Millions of people depend helplessly on their judgment. Through monopolistic mergers the people are losing the power to direct their own economic welfare; they also lose the means to direct their political future.

—The late Senator Estes Kefauver, then a Congressman, testifying to House Judiciary in 1947.

Part of the blame for the poor coverage rests on the Judiciary Committee itself. It did its best to hide its light under a bushel. The printed report is dated June 1 but the Committee waited three months and released it during the Labor Day week-end, Washington's dullest, when most people were away on vacation, and it was certain to fall into routine hands at the wire services. Though the report had been on the shelf three months, and the hearings ended in May, 1970, and there was plenty of time to prepare an index none was supplied with the report or the hearings. The report fills 703 pages. The hear-

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***If, after reading our report, you agree, call your local editor and ask him why he carried little if any coverage.**

ings fill 7 volumes totalling 6,310 pages. Lack of an index is almost as good as a censor's pencil. Some of Washington's smartest lobbyist-lawyers turn up in the hearing record; they know their way around.

Chase Manhattan's Operations

The hottest and most newsworthy section of the report was the part played by respectable New York banks like Chase Manhattan, Lehman Brothers and Lazard Freres in these razzle-dazzle operations. No reference to them appeared in the 5-page single space press release by Chairman Celler of House Judiciary which accompanied the report. Perhaps the juciest banking story told in the staff report was the way Chase Manhattan—in league with its pet conglomerate, Gulf & Western—used its fiduciary department in an attempted corporate takeover. It signed an agreement to exchange 1,500,000 shares of Pan American common in its pension and other trusts for what its own research department called "the highly volatile and speculative" stock warrants and subordinated notes of a Nassau gambling resort. The story should have made headlines in the New York press but Celler made no reference to it.

When Chairman Celler opened these hearings on July 30, 1969 he said, "An inexorable increase in the concentration of economic power in the American economy is our basic problem." How can the problem be brought forcibly to public attention when his findings are presented in a way calculated to attract as little attention as possible? I cannot understand why Chairman Celler went out of his way in his press release to butter up the very operators his own staff report exposed. The press release said "the conglomerate merger movement has produced a variety of results, *many of which are beneficial* (my italics) and the staff has recommended that the Subcommittee commend the sample companies for their contribution." I have read every page of the report without finding a single beneficial result specified. The press release went on to say of the conglomerates studied—

Top management officials of each of the sample companies have been outstanding individuals with exceptional abilities . . . Chairman Celler stated that Harold S. Geneen of ITT is an exceptional leader in American business. Charles G. Bluhdorn of G.&W.; Saul P. Steinberg of Leasco; Glen McDaniel, Charles B. Thornton and Roy Ash of Litton; Eugene Klein of National General; and James J. Ling of LTV have provided imaginative concepts that brought their respective corporations to positions of eminence. As individuals they led their organization in assaults upon outmoded industry traditions.

It is true that these compliments are taken from one paragraph (pps. 440-1) of the staff study. But this paragraph reads like a bit of interpolated salve after the most devastating analysis of how badly these same men ran the businesses they acquired. Here is a sample on Litton from page 361—

Litton has assiduously promoted an image of technological and organizational superiority . . . Litton's image-making has developed flamboyant sham into an art. Overstatement is a way of life . . . Litton has utilized all of the sophisticated accounting techniques and statistical gimmicks available. It is adept at concealment, misdirection and incomplete statement.

Or let us take another of these eminent businessmen, Eugene Klein of National General. The report (at p. 281) describes Klein's operations as "flamboyant and opportunistic." It tells (at pps. 296-8) how National General, as part of a plan to take over insurance companies in order to tap their surpluses for speculative expansion, obtained control of Great American Insurance Company in January, 1969, and at once declared a dividend of $173 million from the insurance company's portfolio. When the SEC asked National General what it was going to do with the $173 million, National General hid the fact it was preparing to take over another insurance company, Republic Indemnity, with the cash from Great American's "kitty". This deception and this use of holding company techniques to circumvent insurance company regulation—is that what Mr. Celler means by "assaults upon outmoded industry traditions"?

Or let us take James J. Ling of LTV—Ling-Temco-Vought, Inc. How does his eminence differ from that once occupied by the Swedish match king, Ivar Kreugar, or that other artist of the 20s, Sam Insull of utility holding company fame? In 1960 Ling began to expand a profitable electronics firm, its business virtually all military, into a conglomerate. By 1969, (pps. 321-3) LTV "had become a colossus. Fourteenth in size among U.S. industrial corporations . . ." But profits from operations in those nine years declined 23.4 percent. LTV's net income in 1960, when it had only $93.5 million in assets, was $3.1 million. Nine years later—when its assets were $2.9 *billion*—its net operating income was down to $2.3 million.

How "Insiders" Could Profit On Mergers

Stock price activity of thirteen of the major companies that were acquired by Gulf and Western has been tabulated to ascertain whether there was a correlation between price increases and merger discussions. The tabulation indicates that, in every case, the common stock of the major acquired companies had appreciated in varying degrees from 6 percent to 67 percent during the month prior to the date the merger was announced. Column 5 shows that on the date of the merger, the market value of the shares of all companies, except two, continued to rise. Column 6 shows that a substantial profit could have been made if one purchased the shares of an acquired company before the first press release announcing the merger, and then sold those shares on the date of the merger . . . The record indicates that the "insiders" who were privy to the corporate plans of G&W before public announcement, for the most part, had a professional relationship, such as its lending institutions and outside legal counsel.

—*Report on Conglomerates, pgs. 195-197.*

Rebutting The View That Bigness in Business Pays Off in Technological Advances

A number of people have challenged the concept that large size is essential to discovery and introduction of new products. Peter Drucker noted that new technologies rarely emerge from a big old company: "It is not RCA or GE that have the computer, but IBM, which at the eve of World War II had no scientists or engineers and was a very small company despite the ambitious 'International' in its name. It is not the printing-press makers with their seemingly impregnable monopoly who have the new duplicating and reproduction technology; it is Xerox, which as late as 1950 was a tiny, local shop."

In an address to the Federal Bar Association's Council on Antitrust and Trade Regulation, Richard W. McLaren, Assistant Attorney General, Antitrust Division, advanced the view that technological advances are not dependent upon economic concentration, huge size, or substantial market power. "The bulk of the available evidence runs counter to the hypothesis that high concentration, huge size, and substantial market power are prerequisites for research and innovation. Indeed, some of the most careful studies find that, if anything, market power and the security of bigness, with the concomitant vested interest in the status quo, may have a stultifying effect."

—*Report on Conglomerates, pgs. 56-58.*

At the hearings (p. 341) LTV's long term debt turned out to exceed its saleable assets by $170 million. By 1970 when it lost $69.6 million and could not cover its interest charges, Ling was forced out by his creditors.

Making Debt Look Like Growth

One reason these conglomerates ran into trouble is because they grew by paying far more for the businesses they acquired than they were worth. A table (p. 414) shows that ITT under another Celler hero, Geneen, acquired 31 domestic companies between 1964 and 1968. Their combined net worth when acquired was $534 million. ITT paid $1,278 million, or $744 million more than that. By the "pooling" method of accounting, however, ITT could add the earnings of these companies to its own to show apparent "growth" without disclosing these huge overpayments. If this excess investment in "goodwill" had been accounted for and amortized over a 10-year period, "ITT's reported net income for 1968 would be overstated by 70.4 percent." Pooling permits the actual cost of acquisition to be concealed from the unwary investor. Growth in unwise debt may thus be made to look like a growth in earnings.

After hailing these operators as businessmen on page one of his press release, Celler (on p. 2) quotes a deadly conclusion about them from the staff study, "The orientation of merger motivation in financial and security transactions resulted in impairment in the financial stability of the sample companies. The financial stability of ITT, G.&W., LTV and Litton deteriorated." Then on page 3 of the press release one finds, again from the staff study's conclusions, "In general the major acquisitions by the sample companies were corporate organizations that were profitable" but "in most instances the acquired companies operated less efficiently after acquisition." The staff study said (at p.440)—

Management difficulties with newly acquired companies indicate that combination frequently had an injurious effect on efficiency, on productivity and upon corporate values.

What we really need is an investigation of this investigation. Why did Celler soft-pedal the findings? A superb job was done by Kenneth R. Harkins, who was special counsel, and by his staff. The hearings and the report are in a tradition that goes back to the Pujo money trust investigation by Congress in 1912 which helped prepare the way for the anti-trust and financial reforms of the Wilson Administration. But this time the findings were handled in such a way as to guarantee little attention and little result. Mr. Harkins has been elevated to that mausoleum, the Court of Claims. The staff which did the work and had the expertise for remedial legislation, has been disbanded. Of the anti-trust subcommittee members who took part in the hearings, all but Brooks (*D. Texas*) have been reassigned to other subcommittees.

The real significance of the findings may explain the effort to bury them. In the wake of the 1929 stock market crash, the financial legislation of the New Deal period sought to bar commercial banks from stock speculation. None of the "wonder boys" who built so many of the conglomerates could have gotten anywhere without the banks behind them. These operators and their conglomerates gave banking interests an opportunity to do indirectly what they could not do directly, to play the market. Let us take, for example, the meteoric rise of another Celler hero, Bluhdorn of Gulf & Western. G.&W., until then in the automobile parts business, bowed into the big time in 1966 with the acquisition of New Jersey Zinc by paying $40 a share for shares then worth $33. The attraction was the zinc company's surpluses. As *Fortune* reported in May 1969, Zinc "was at that time sitting on a lot of cash and Bluhdorn knew right away what he thought: 'It looks like a bank,' he said. 'Buy it!' "

But Bluhdorn was able to buy it only because Chase Manhattan advanced him the $83.4 million he needed. He got the entire amount on an unsecured demand note at 5¾ percent. Bluhdorn later described this as "imaginative lending." The same kind of free-and-easy credit from Chase made it possible for G.&W. to take over Paramount Pictures, E. W. Bliss and Universal American. The report shows the many ways in which Chase Manhattan profited from these dubious operations. From 1960 to 1969, the long term debt of Gulf & Western grew 53,396%! "This is nearly three times greater than the increase in total assets," says the staff study (p. 188), "nine times greater than the increase in total revenue, and about 31 times greater than that of net income." No wonder that when the stock market began to weaken and the truth to leak out, G.&W. stock fell $836 million in 18 months. What business has a commercial bank to be involved in such a roller coaster operation? What an example to be set by the biggest bank in the country!

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How Bankers Fatten On Mergers

Investment banking firms, management consultants, loan officers in commercial banks and other members of the financial community have played a prominent role in the merger movement. These groups have stimulated mergers and have secured substantial compensation from functions as merger brokers . . . Lazard Freres and Company, as investment bankers perform several classes of services. During the period 1964-1968, the merger and acquisition function became increasingly important in relation to its other business. From January 1, 1964 to September 5, 1969, Lazard Freres received $16,058,243 in merger fees. During this period, the firm's gross income increased roughly 2½ times, 256 percent, while at the same time its income from merger and acquisition services increased nearly six times, 584 percent.

—Report on Conglomerates, pgs. 150-151.

Americans A Half Century Ago Saw The Danger More Clearly Than We Do Now

A great merger wave is sweeping across American industry. Although recent industrial restructuring transcends anything we have seen since the great trust movement *around the turn of the century, historians will note a distinct* difference in public response. Social control of industry occupied a central place in the Nation's priorities for over three decades around 1900. Perhaps Supreme Court Justice Harlan, *writing in 1911,* best characterized the mood of the country when he wrote: "All who recall the condition of the country in 1890 will remember that there was everywhere a deep feeling of unrest. The nation had been rid of human slavery but the conviction was universal that the country was in real danger from another kind of slavery, namely, the slavery that would result from the aggregations of capital in a few individuals and corporations, for their own profit and advantage exclusively. . . ."

Quite clearly, there exists today no universal conviction *that our system is endangered by the contemporary merger-*induced industrial restructuring. Historians may quite well record that while Americans were debating about other great public issues of the 1960's and 1970's—the war, pollution, civil rights—they largely ignored the unparalleled *centralization of economic power that occurred during the* period. Compared with today's industrial elite, the early 20th century business monarchs ruled very *modest* domains.

—Prof. Willard F. Mueller, Univ. of Wisconsin, formerly with the Federal Trade Commission, in a statement to the investigation of conglomerates, Pt. 7, p. 330.

The Tax Laws Encourage Mergers

(Continued from Page Three)

Celler said in his press release, "As soon as conditions in the securities markets again become favorable to aggressive speculators, resurgence in the pace of merger activity may reasonably be expected." The job is to prevent it. In the early 1900s and the 20s, mergers capitalized on monopolistic price-fixing. The conglomerate movement, on the other hand, is fueled principally by tax considerations. These encourage businesses with tax losses and unused investment credits, symptoms of their inefficiency, to use them as financial tools to take over (and loot) going concerns with cash surpluses. The 1969 "tax reform" act made only a few feeble and superficial changes, thanks to another genius, Wilbur Mills.

The U.S. Treasury is subsidizing concentration of control and stock market flim-flam while the Internal Revenue Service and the SEC collaborate, the latter by allowing "Mother Hubbard" consolidated financial reports which hide more than they reveal. The staff report shows (p.416) that the SEC allowed Gulf & Western to overstate its 1969 earnings by $32 million and LTV to show a $2.3 million net income in 1969 when it should have reported a $16.7 million loss. The sleight of hand was accomplished by an extraordinary con operation. LTV counted as 1969 earnings a tax credit of $19 million from operating loss and investment credit carryovers "which (the staff report says) may or may not be realized in future years." Even LTV's own accountants, Ernst & Ernst, balked—it takes a lot to make these big accounting firms balk—and "qualified" this item. But the SEC let it pass!

Obviously a whole series of reforms are required. Celler muffles his own investigation just when Congress has all these sensational findings to work with and comes forward instead with a grandoise plan to put all existing anti-trust authority in an Office of Industrial Organization to be established in the Executive Office of the President and pass on all proposed mergers. This bears a resemblance to the kind of plans put forward by another of the geniuses Celler touted—Roy Ash of Litton Industries. Soon after taking office Nixon appointed Ash chairman of an Advisory Council on Executive Reorganization, a prestigious post of murky dimension and great potential, but—happily for Ash—not requiring Senate hearing and confirmation. Litton is another of the bubbles that burst in recent years; major investment trusts have unloaded their holdings and the insiders (who only hold six percent of their "own" company's shares) have for the past 18 months been selling it.*

Ash, too, wants to centralize power in the White House. Celler would create the biggest regulatory "conglomerate" of all time, in just the place where it would be most susceptible to political influence. The most risky part of this plan is that it would repeal those provisions of the Clayton and Sherman Acts which have provided a weapon against mergers in the past. It would be ironic if an investigation of conglomerates ended with a reform that facilitated them in the future. The Administrator of Industrial Organization under Celler's plan would have power to veto mergers in advance, but the standards Celler would write into the law have already proven inadequate to stem the conglomerate movement.

"Synergism" As Hi Falutin' Sucker Bait

From the inception of the investigation, the Subcommittee sought information that would bear upon the contention that conglomerate organizations, through superior management, and institutional relationships, could produce more than the sum of their parts. A name, reputedly coined in Litton Industries, for this highly touted phenomenon was "synergism." This concept has its basis in physiology where it described cooperative action of a mixture of drugs such that the total effect is greater than the sum of the effects taken independently. In other words two and two make five. No support for this concept was found in the materials supplied by the sample companies. In fact, management difficulties with newly acquired companies showed, if anything, that combination frequently had injurious effect on efficiency, productivity and corporate values. The experience of all the companies in the sample, particularly Litton and National General, shows the lack of substance in the synergism concept.

—*Report on Conglomerates, pg. 404.*

Value Line Investment Survey* **(Sept. 10). Litton now believes, according to the same survey, that its outlook next year will improve with its new multi-billion dollar naval construction awards. Its one hope lies in the arms race.

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