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TAKEOVERS IN THE '60s AND THE '80s: EVIDENCE AND IMPLICATIONS

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This paper reviews the evidence on takeover waves of the 1960s and 1980s, and discusses the implications of this evidence for corporate strategy, agency theory, capital market efficiency, and antitrust policy. We conclude that antitrust policy played an important role in the two takeover waves, and that the wave of the '60s presents a problem for efficient capital markets.

INTRODUCTION

The American economy has experienced two large takeover waves in the postwar period: one in the 1960s and one in the 1980s. Both waves had a profound impact on the structure of corporate America. The dominant trend in the '60s was diversification and conglomeration.The '80s takeovers, in contrast, reversed this process and brought American corporations back to greater specialization. In many respects, the last 30 years were a roundtrip for corporate America.

In this paper, we summarize what is known about these two takeover waves, and interpret this 30-year experience. The major changes that the two takeover waves brought about provide a natural testing ground of theories and ideas about how corporations and financial markets work. We try to use the available evidence to draw lessons for these various theories, as well as for public policies suggested by the theories.

The first section of the paper summarizes the evidence on the two takeover waves. The next section examines alternative interpretations of these experiences and argues that there is only one sensible view. Implications are then drawn from available evidence for Chandler's 'Strategy and Structure' approach to corporate evolution, for agency theory, for market efficiency, and for antitrust policy. A concluding section follows.

SUMMARY OF THE EVIDENCE

Takeovers in the 1960s

The takeover wave of the 1960s was the largest since the turn of the century 'mergers for monopoly' (Stigler, 1968). A typical '60s transaction was a friendly acquisition, usually for stock, by a large corporation of a smaller public or private firm outside the acquirer's main line of business. Such unrelated diversification was common among the large companies. Rumelt (1974) reports that the fraction of single business companies in the *Fortune 500* dropped from 22.8 percent in 1959 to 14.8 percent in 1969. The fraction of 'unrelated business' companies, which are essentially conglomerates with no dominant businesses, rose from 7.3 percent to 18.7 percent. There was also a substantial move to diversification among companies that retained a dominant business. The critical feature of the '60s takeovers, then, was unrelated diversification.

There were many reasons why unrelated diversification occurred in the '60s. To begin, the

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'60s wave, like all the others, was, in part, driven by large corporate cash flows and high valuations of company stocks. Reluctant to pay out the high cash flows as dividends, and able to issue equity at attractive terms, managers naturally turned their attention to acquisitions. The interest of corporate managers in growth and survival of their companies is well understood (Donaldson, 1984). From this point of view, dividends were regarded as a complete waste, and acquisitions as a very attractive way to conserve corporate wealth.

But why did the takeover wave take the form of diversification? By far the most important reason is the aggressive antitrust enforcement in the '60s and '70s that simply disallowed mergers of firms in the same industry, regardless of the effects of these mergers on competition. In some cases, antitrust authorities even challenged mergers of two unrelated firms. Faced with this policy, a corporate manager who wanted to make acquisitions basically had to diversify or face a costly antitrust challenge.

There are, of course, some reasons why managers might have wanted to diversify even if they did not have to. They might have believed that they could better manage the target, perhaps by following internal capital reallocation methods across divisions. Williamson (1975), among others, has argued that central offices can do this better than external capital markets. Scientific management theories that put accounting in the centerfold of growth manuals also had many admirers. Small companies acquired in the process were alleged to not know management. If these theories were correct, acquisitions guided by more informed management would create shareholder value.

In addition, diversification has some benefits for the managers. It may reduce personal risk of the managers, cut the cyclicality of cash flows, and so allow regularization of investment, or simply help managers entrench themselves. Both the beliefs in the efficiency of diversification and managerial objectives were probably behind it. Nonetheless, it is hard to believe that diversification would have taken the enormous proportions that it did without the prevailing antitrust policy.

Evidence from the stock market suggests that shareholders liked having their firms diversify relative to the alternatives that might have been chosen. Using a data set from the '60s and early '70s, Matsusaka (1990) reports that, on the announcement of an unrelated acquisition, the stock price of the bidder rose an average of $8 million, adjusting for market movements. On the announcement of a related acquisition, in contrast, a bidder's stock price fell by $4 million. The difference between the two returns is significant. It seems that investors fully subscribed to the belief that unrelated acquisitions benefitted their firms relative to the alternatives, which makes it even less surprising that firms diversified. They just did what the stock market told them to do.

One of the reasons that firms diversified was to get into growing lines of business when their current operations matured. When continued growth could not be sustained from existing operations, firms bought growth in unrelated lines of business. Interestingly, the stock market liked acquisitions of rapidly growing companies more than those of slowly growing ones. Matsusaka (1990) examined bidder stock returns on the announcement of acquisitions in the '60s and found that firms that bought rapidly growing targets earned higher returns on the announcement. Buying growth was the type of diversification shareholders especially approved of, and not surprisingly, the managers obliged.

Contrary to the expectations of the 1960s, the experience with diversification has been disappointing. As extensively documented by Ravenscraft and Scherer (1987), profitability of acquired companies did not, on average, improve. Moreover, starting in the 1970s, many of the acquisitions have been reversed through divestitures. Porter (1987) reports that half of the unrelated acquisitions made by conglomerates were later divested. Ravenscraft and Scherer (1987) estimate that one-third of all (including related) acquisitions made in the '60s and '70s were later divested, and their sample stopped before divestitures became really massive. Kaplan and Weisbach (1990) report that 44 percent of all acquisitions made between 1971 and 1982 were divested by 1989. Kaplan and Weisbach also report that prices obtained in these divestitures were sufficiently attractive to make them a reasonable investment *ex ante*. Nonetheless, the fact that diversification of the '60s did not, on average, lead to profitability improvements and was, to a substantial extent, subsequently

reversed, is clear evidence of a failure that was not expected in the '60s.

Takeovers in the 1980s

Takeovers in the '80s were very different from takeovers in the '60s. First, the size of the average target has increased enormously from the modest level of the '60s. Of the 1980 *Fortune 500* companies, at least 143, or 28 percent, were acquired by 1989. Second, many transactions, especially the large ones, were hostile—done against the will of the target firm's management. Third, the medium of exchange in takeovers became cash rather than stock. In all these respects, the '80s were very different from the '60s.

The '80s were also characterized by some even more radical new forms of control changes. These include 'bustup' takeovers, that were followed by selloffs of a substantial fraction of the target's assets to other firms. Such bustup takeovers were only a part of the larger divestiture movement, whereby firms sold their divisions to other firms. Another new organization in the 1980s was the leveraged buyout, a largely debt-financed acquisition of a firm by its own management. Like bustup takeovers, management buyouts were followed by divestitures of a substantial fraction of the assests (Bhagat, Shleifer, and Vishny, 1990; Kaplan, 1990).

Many of these features of the takeover wave of the 1980s can be understood in light of the changed antitrust policy, initiated when the new Reagan Administration picked a new set of enforcers. It is fair to characterize the new policy as hands off. As antitrust authorities stopped challenging mergers of firms in the same industry, the number of such mergers increased sharply.

Most importantly, there was a sharp increase in the number of friendly related acquisitions, most notably in the airline, timber, food, oil, and several other industries. But, in addition, hostile takeovers also turned out to be a response to the antitrust policy. Subsequent to such takeovers, the acquirer typically busted up the target and sold off many of the divisions to other firms in the same industry as these divisions, a strategy that would not be possible in the 1960s. In fact, Bhagat *et al.* (1990) show that, when one follows through with divestitures, over 70 percent of the assets acquired in hostile takeovers ended up managed by firms in the same line of business as these assets. In contrast, only 4.5 percent of the assets ended up managed by unrelated acquirers. This is a stark contrast to the diversification strategies of the '60s, as Rumelt's (1974) evidence makes clear.

Even leveraged buyouts (LBOs) can, to some extent, be viewed as a reaction to the relaxation of antitrust enforcement. Within 3 years following such buyouts, about 50 percent of the assets are typically sold off to buyers in the same industry as those assets (Kaplan, 1990). Bhagat *et al.* (1990) view LBOs and, to some extent, other hostile takeovers as temporary organizational forms that serve the function of brokering the assets of a diversified company to other firms in the same industry as those assets.

The evidence from the stock market suggests that shareholders, again, liked what was happening. Morck, Shleifer, and Vishny (1990) found that in the 1980s, stock prices of the bidding firms rose when they bought other firms in the same industry, and fell with unrelated diversification. It is clear that the market disfavored unrelated diversification: when Kodak acquired Sterling Drug, its market value fell by $2 billion, the full amount of the premium. Morck *et al.* (1990) also found that bidding shareholders returns to buying rapidly growing companies were also negative in the '80s, in contrast to the experience in the '60s. It is not at all surprising that, in light of such market reception, firms stopped diversifying and buying growth. In fact, Mitchell and Lehn (1990) show that firms that lost market value when they made acquisitions were themselves likely future takeover targets.

Unlike in the case with takeovers of the '60s, we do not have much evidence on the *ex-post* performance of the 1980's takeovers. There is some evidence (Kaplan, 1989) tht leveraged buyouts improve profitability, and there is also some evidence (Lichtenberg and Siegel, 1989) that productivity of plants rises after they experience a control change. This may, however, result from reduced investments, and not necessarily from improvements in the present value of profits. One study that has shown increases in profitability, that of Healy, Palepu, and Ruback (1990), may not have adequately corrected for asset sales.

There have not, at this point, been satisfactory

studies of changes in profitability after takeovers. There are, however, some reasons for optimism. First, there is evidence that takeover targets in the '80s were poor performers (Morck, Shleifer, and Vishny, 1988; Servaes, 1989), which suggests that they had room for improvement. Second, there is some evidence that divisions of diversified firms do not perform as well as similar businesses that stand alone or are part of undiversified firms (Lichtenberg, 1990). This evidence would suggest that the return to specialization might improve efficiency. It is still probably the case, however, that a large chunk of the shareholder wealth gains in takeovers come from tax savings rather than from operating improvements. The critical evidence on post-takeover performance of companies in the '80s wave is still to come.

In sum, the evidence strongly indicates that the takeovers of the 1980s were so different from those of the '60s largely because they undid what the previous wave had created. In the '60s, conglomerates were created; in the '80s, many of them were destroyed. The '60s were a move to unrelated diversification; the '80s were a move to consolidation and specialization. This roundtrip of the American corporation is an intriguing example of corporate evolution in action that sheds substantial light on how firms behave.

INTERPRETATIONS

There are two alternative theories of the two takeover waves. The first says that conglomerate mergers of the 1960s were a good idea back then, but were no longer a good idea 10 years later. On this theory, corporations always move toward efficiency, with takeovers helping them along, but just what is efficient, changes. Hence, the reason for the roundtrip is that what is efficient changed over time.

An alternative interpretation of the experience is that diversification was a mistake from the start, and was undone only gradually. On this theory, corporate America took a 30-year detour away from efficiency. The circumstances are not different in essential respects, but the road to efficiency circled around. In this section, we appraise the two theories. In our opinion, both theory and evidence strongly favor the view that unrelated diversification was a mistake from the start.

Efficient diversification

According to the optimistic view of the '60s takeovers, conglomerates during this period were an efficient organizational structure. This view is argued, perhaps most eloquently, by Williamson (1975), generalizing the framework suggested by Chandler (1962). According to Williamson, conglomerates were a product of the M-form of corporate organization, in which the central office allocates investment resources between divisions. Such allocation is more efficient than that obtained when divisions are independent firms, because the central office knows better than the market where the growth opportunities are. In the relatively quiet and uncompetitive '60s, goes the argument, when aggressive hands on management was not essential, this advantage in capital allocation exceeded whatever disadvantages might have arisen from the fact that headquarter's management was not intimately familiar with the businesses of the divisions. Because conglomerates had a benefit and relatively small costs, they were an efficient organization at the time.

In the 1980s, in contrast, the business environment became much more competitive. American manufacturing was challenged by high oil prices, an uneducated labor force, and competitors from the Far East. For a variety of reasons, productivity had declined and many manufacturing firms required aggressive hands-on management. In these circumstances, conglomerates were no longer an efficient organization form, as much closer attention was required from the headquarters than conglomerates' central offices could deliver. The market responded to these pressures by breaking up conglomerates and reallocating their assets to more focused and specialized companies that could provide the essential managerial inputs. Luckily, the antitrust policy accommodated this essential move to efficiency.

In some respects, this view of the two takeover waves is very appealing. For one, it is consistent with stock market efficiency, since it says that the market correctly approved of both the diversification in the '60s and the return to specialization in the '80s. Moreover, this view offers quite an optimistic appraisal of the takeover market, which effectively enforced efficient organizational changes in both the '60s and the '80s. In some respects, this view takes the

experience of the last three decades as a further confirmation of the theory that 'structure follows strategy' on the road to efficiency.

Inefficient diversification

An alternative interpretation of the evidence is that a substantial part of diversification of the '60s was a mistake, which was prompted to a large extent by aggressive antitrust policy. On this theory, it was never efficient for divisions to be run from above by scarcely informed central offices, even in the placid 1960s. Although these central offices might have been able to allocate capital across divisions, their advantage over the private market was small, if any. Moreover, this advantage did not compensate for the problems of uninformed central management, which simply could not run R&D and investment-intensive divisions. On this view, the M-form was not designed to deal with unrelated diversification.

This theory holds that managers pursued unrelated diversification only because they were committed to personal objectives, such as growth and survival of their firms. If it were not for antitrust policy, they would have pursued these objectives through related acquisitions as they did in the '20s and '40s. But even investing in businesses that they knew fairly little about was preferable, from their viewpoint, to returning free cash flow to shareholders. On this theory then diversification in the '60s was a manifestation of agency problems. Managers could get away with diversification because shareholder control mechanisms in this period were fairly weak. It is also possible that shareholders were confused about the benefits of unrelated diversification—recall that the stock market evidence indicates that shareholders approved of unrelated diversification.

Ten years later, it became clear that diversification failed. In addition, the antitrust environment had changed dramatically so diversification could be effectively reversed. This is indeed what happened in the 1980s, through divestitures, takeovers, and LBOs. When corporate managers were fast to recognize their past mistakes, they divested and managed to preserve the core businesses intact and under their control. When they failed to do so, hostile raiders did the job for them and brokered the unrelated businesses to other firms in the same line of business. The role of such raiders and of LBOs was then to accelerate this process of return to specialization.

This view of the two takeover waves is also, in some respects, appealing. It explains why Ravenscraft and Scherer (1987) failed to find any evidence of improved performance after takeovers in the '60s. It also explains why such massive divestitures followed. It is also, in some respects, much more consistent with the Chandlerian view that unrelated diversification into growth businesses that require intensive management could not work. The managers in the '60s should have known when they acquired growing businesses, that passive capital allocation is not sufficient to manage them, and that success would prove elusive. The inefficient view suggests that the world does not always move toward efficiency.

SUMMARY

Which of the two views do we believe? Both have some intuitive appeal, but both have some problems.

Consider first the efficient diversification view. The view has some empirical problems. Most importantly, there is no evidence we know of that suggests that conglomerates improved the profitability and efficiency of the firms they acquired. Rumelt (1974) was the first to cast doubt on the efficiency of conglomerates, but Ravenscraft and Scherer (1987) provided perhaps the strongest evidence to date of no improvements in profitability. The evidence on massive divestitures is also problematic for the efficiency of conglomerates, but one can question it by saying that the institution of marriage cannot be evaluated in front of a divorce court. The trouble is, there are so few successful marriages from the period of diversification. Without positive evidence on profitability improvements from unrelated acquisitions, it is hard to believe the efficiency theory.

This view also has some theoretical problems. Chandler (1990a) has stated clearly the position that not all companies can be effectively managed by financial controls from central headquarters. Some companies, particularly in growing industries, require everyday intrusive hands on management that is highly responsive to changing

circumstances. Annual or even quarterly financial evaluations do not provide enough flexibility to manage such companies. This theoretical argument seems to be compelling, even as applied to the relatively uncompetitive '60s.

Yet, we know from the evidence that the market approved of conglomerates buying rapidly growing firms, presumably because it thought they could manage them better. The market appeared to believe the opposite of Chandler's theory, which predicts that, although conglomerates could manage maturity, they could not manage growth. There appears to be a very serious tension between Chandler's theory and the stock market evidence, although not between Chandler's theory and *ex-post* performance evidence of Ravenscraft and Scherer. In some sense, this tension is the crux of the matter. The inefficient diversification view is consistent with Chandler's theory and the *ex-post* performance evidence, but not with the stock market evidence.

The main difficultly with the inefficient diversification view, of course, is that it suggests that the market got it completely wrong in being optimistic about unrelated diversification and buying growth in the '60s. This, of course, is only one observation of the market making a mistake, although the mistake is quite major. Nonetheless, this is a problem for those who believe that much can be inferred from stock price reactions. For if one gauged the wisdom of the '60s conglomerate mergers from bidder stock returns, one would have gotten exactly the wrong idea.

In choosing between the two views, we are inclined to give up on market efficiency. The Chandlerian theoretical arguments seem to us to be compelling, and there is a variety of anecdotal evidence that conglomerates in fact failed to manage technology (Holland, 1989). Moreover, the dearth of evidence of profitability improvements under conglomerates is striking. On the other hand, it is not really surprising that the market's optimism was misplaced, since unrelated diversification was a new experience and no one but careful readers of Chandler could really predict what will happen. The market made only one mistake, but it made it consistently across a large number of transactions. In sum, we conclude that diversification was a mistake from the beginning and was corrected in the '80s.

IMPLICATIONS

This section attempts to draw the implications of the above analysis to several issues pertinent to the analysis of firms. These are: (1) the strategy and structure approach, (2) agency theory as applied to takeovers, (3) capital market efficiency, and (4) antitrust policy. We believe that the two takeover waves teach us something about each of these issues.

The strategy and structure approach

Chandler's (1962) strategy and structure approach to the internal organization of the firm, extended by Williamson (1975) and others, has proved to be a very successful way of thinking about firms. The main idea of the approach is that a multidivisional structure (M-form) was invented when large corporations began to diversify their lines of business and so needed to reduce the decision-making workload of the central office. The approach has proved successful in explaining the evolution of large corporations around the world (Chandler, 1990b).

One of the themes of Chandler's and Williamson's work—although not a logical consequence of the strategy and structure approach—is the tendency toward greater efficiency in organizational design. Thus, the M-form replaced the U-form (a more vertical structure) because the former was more efficient. When Chandler says that structure follows strategy, he means that structure adapts efficiently to strategic requirements.

The experience of the '60s presents a serious problem for this optimistic view, although, in some sense, it confirms the underlying model. The multidivisional structure indeed accommodated the strategy of unrelated diversifications, but this was not an efficient strategy. Although the internal organization was, in fact, ideal and, in many ways, essential for unrelated diversification, the fact that this strategy was pursued is, in some sense, the responsibility of the organizational structure. The M-form begot the monster of the conglomerate.

Chandler (1990a) quite correctly points out that financial management of conglomerates is only effective in stable environments, where financial controls are an effective management tool. Financial controls are, in many ways, similar

to debt, in that as long as the division meets its plan—or debt payments—there is no interference from the headquarters. But, when the division fails to meet the plan, headquarters interferes just as the creditors take control when a firm defaults on its debt. And, just as debt is an appropriate financing device for stable firms, and inappropriate in cases of great growth and uncertainty, when creditors would be taking control all the time, so are financial controls inappropriate in such circumstances. Firms then need equity as the means of external financing, and active management as the means of internal monitoring. Because conglomerates failed to deliver such management, they could not effectively run competitive and growing divisions. Chandler's theory thus predicts that conglomerates investing in growth were doomed from the start. The theory is thus correct in that it could have predicted the failure *ex ante*. However, the belief that the world is always moving toward efficiency is belied by the conglomerate wave of the '60s.

Agency theory

Another extremely useful approach to the analysis of corporate behavior has been agency theory, or the idea that managers pursue their own objectives that need not serve the interest of shareholders. Students of agency theory discuss the various means by which shareholders attempt to enforce value maximization, including compensation arrangements, boards of directors, debt finance, and, perhaps most importantly, takeovers. Jensen (1986) interpreted hostile takeovers in the 1980s as mainly the attempt to control nonvalue maximizing behavior of corporate managers.

In his paper, Jensen focused on excessive investment as the type of nonvalue maximizing behavior that takeovers stopped. Subsequent research has suggested that excessive investment is not such a big problem. A more empirically accurate view is that the nonvalue maximizing behavior that hostile takeovers have reversed is unrelated diversification. When managers in the '60s had their hands on large free cash flow, they spent it on unrelated diversification that hurt the shareholders in the long run, the initial favorable stock market reaction notwithstanding. Those managers who failed to divest these acquisitions fast enough in the '70s and '80s, perhaps because they wanted to maintain their empire, faced the threat of a hostile takeover and a forced bustup. The hostile takeovers of the '80s solved some of the agency problems created by diversification of the '60s.

Although this view puts a fairly positive light on the hostile takeovers of the '80s, it also says clearly that not all acquisitions serve the interest of shareholders. In particular, diversification of the '60s was a manifestation of agency problems, not a solution to them. The notion that some takeovers are bad is quite antithetical to at least the early views of takeover enthusiasts. Ravenscraft and Scherer's (1987) negative evidence on diversification was criticized for judging the institution of marriage in front of the divorce court. The criticism was unfair, since when it came to the corporate marriages of the '60s, divorce was a rule rather than an exception. As we pointed out in 1988, in appraising takeovers, it is essential to distinguish those that solve and those that reflect agency problems.

Viewing the diversification of the '60s as nonvalue-maximizing behavior complements Chandler's strategy and structure perspective, according to which these acquisitions did not make sense. The agency perspective suggests that they made sense from the viewpoint of the managers. In the long run, the Chandlerian inefficiency of these acquisitions became self-evident, and hostile takeovers were the result. On the other hand, the agency perspective explains why Williamson's and perhaps Chandler's optimism in the 1960s that corporations always move toward greater efficiency is inappropriate. The experience of the last 30 years has been a detour.

Market efficiency

Perhaps the thorniest point in the theory that diversification of the '60s was a mistake to begin with is the fact that the market value of bidding firms rose on the announcement of such acquisitions (Matsusaka, 1990). To an economist schooled in efficient markets, this enthusiasm of market participants is *prima facie* evidence that *ex ante* these acquisitions were a good idea from the shareholders' viewpoint. These economists are much more likely to subscribe to the first view of diversification that we described, namely,

that *ex ante* it was a good idea but *ex post*, as the world changed, specialized firms became more efficient. Hostile takeovers facilitated this move to specialization, again with the approval of the stock market.

The trouble with this view, of course, is that there is no evidence that profitability improved after conglomerate mergers, and there is quite a bit of evidence that it did not, including that of Rumelt (1974) and Ravenscraft and Scherer (1987). The divestiture evidence is no indication of success either. We are, therefore, inclined to believe that the market's expectations about unrelated diversification into growth were wrong.

Of course, one cannot view each acquisition as an independent mistake. It is much more appropriate to think of this as one mistake correlated across transactions. Stock market participants had a model in mind—scientific management or internal capital allocation—that was the source of their optimism about diversification. This was not a model that could have been refuted by prior experience, since unrelated diversification was a new phenomenon, and so there was no evidence to go on. It happened to be the wrong model, and diversification was reversed. The horizon of reversals was far too long for whatever smart money was available to try to take advantage of it. It did not pay to sell stocks of conglomerates short on the expectation that, in the long run, their stock prices will fall, and with the risk that, in the meantime, they could rise enormously. As a result, the incorrect 'popular model' of scientific management carried the day, and the market incorrectly reacted positively to diversification.

Although inconsistent with the view that the market holds unbiased expectations, this interpretation of the evidence is quite in line with recent research on market inefficiency (Shiller, 1984; Shleifer and Summers, 1990; Shleifer and Vishny, 1990). According to this research, fads or popular models can influence stock prices for prolonged periods of time. Arbitrage by smart investors will be weak and will not undo these influences, because arbitrage over several year horizons, as would be required in the case of conglomerates, is very costly and risky. Betting against the conglomerates would have proven to be a mistake for all but the longest horizon investors with access to cheap capital. According to these theories and the evidence that supports them, the mistaken market enthusiasm about particular events such as conglomerate mergers is a commonplace equilibrium occurrence in financial markets. The fact that the market thought that conglomerates were a good idea does not mean that they were.

Antitrust policy

The first three implications of takeovers we have discussed were for economic analysis; the last one is for economic policy. Perhaps the single most important aspect of the environment that shaped the two takeover waves has been antitrust policy. The extremely strict antitrust enforcement of the '60s made most related acquisitions infeasible, or at least costly, and so forced firms determined to make acquisitions to diversify. This policy might not have been as distortionary if managers were willing to return the excess cash flow to shareholders, but as long as they were not, strict antitrust was largely responsible for diversification.

Similarly, the much looser antitrust policy of the '80s allowed the divestitures, acquisitions, and bustup takeovers, which to a crucial extent relied on the ease of resale of divisions. If the antitrust policy remained as it was, we would have probably either seen a restructuring via different means than eventual acquisition of assets by the firms in the same industry, or no restructuring at all. In either case, we would not have had the hostile takeover wave of the '80s. Whatever one thinks of the changes this wave brought to corporate America, the antitrust policy is, to a large extent, responsible for them.

All things considered, the current antitrust stance is certainly preferable to that of the '60s. Even if one sees some problems with the takeovers in the '80s, it is hard to believe that they will turn out as bad as diversification of the '60s. In the first best world, aggressive antitrust enforcement may be a good idea. But, in the world where corporations are committed to growth through acquisitions, antitrust policy of the '60s, like deposit insurance in the '70s and '80s, had inadvertent effects much more damaging than the benefits it created. For this reason, the message of the research on takeovers is clearly in support of lax antitrust enforcement of the sort we have seen in recent years. There is no question that such lax policy has led to some

anticompetitive mergers, such as those in the airline industry, but it is better to have a few monopolies than a lot of conglomerates.

CONCLUSION

Recent research has produced considerable evidence on the takeover waves of the '60s and '80s. The most plausible interpretation of the evidence is that the takeover wave of the '80s served largely to reverse unrelated diversification of the '60s. Over a 30-year period, corporate America took a detour.

This experience has several implications for economic analysis as well as for policy. It supports the Chandlerian strategy and structure approach, but suggests also that the world does not always move toward greater efficiency. It shows that takeovers can be as much a manifestation of agency problems as a route to correcting them. It also demonstrates that using the stock market as a gauge of profitability of corporate actions can lead one seriously astray; investors can and do make systematic mistakes. Finally, the experience cautions that aggressive government policy, in this case antitrust policy, can have large unintended effects. In part, misguided public policy is to blame for this 30-year corporate detour.

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