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Turner's CBS Bid Typical of Sickening Economic Inefficiency

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From the not-so Ivory Tower: The Economy

By Hyman P. Minsky

We live in an age of mind boggling financial manipulations. Today's golden parachutes, scorched earth defenses, and proliferation of funny monies recall

earn. Entrepreneurial energy no longer goes into "building railroads and making them run" but rather into creating and passing off funny monies in order to finance a *coup* on Wall Street.

Turner's CBS bid typical of sickening economic inefficiency

and put to shame the machinations of the plunderers of the Erie Railroad, Drew, Gould and Risk. The values of companies and the prices of their stocks are divorced from the cash flows enterprises

There is a sickening inefficiency in our economy. The time, energy and creative intelligence of some of our ablest businessmen are used to play the game of "take over and finance." From the

point of view of society these human resources would be better used to create, design, produce and market outputs and services that are competitive in the world's markets. Our industry falters even as speculators prosper.

What is happening demonstrates the validity of a cardinal rule of economics: "Anyone can create money, the only problem is to get it accepted." Turner is offering to buy CBS with a complex of debt instruments whose value will be mainly due to the income that CBS will earn. These debts are Turner money: according to some early reports the payment commitments on Turner money will be about \$600 million a year while the cash flows from the combined CBS-Turner operations will be about \$400 million. In 1985's speculative climate it is possible for \$400 million to be passed off as being greater than \$600 million.

The companies that will be left after Pickens finishes with Unocal and Turner with CBS will be far different from the corporate model that ruled between 1946 and 1970, when our economy was progressive and successful. In those years corporations were modestly

indebted. They not only produced current outputs efficiently, but they were also innovative and creators of a progressive technology. Successful corporate managements were not constrained by the need to maximize short term profits, pay out most earnings to stock or bond holders, and worry excessively about the price of their shares in the market. Corporate managements were able to take a longer view; this meant they invested in resource development, research and new products.

Today's speculator uses bank debts, junk bonds and funny monies to buy a company; after a "merger" these debts become the debts of the surviving company. As a result, well nigh all of the cash flow of the survivor is committed to the servicing of debts. There is very little margin of safety between the net cash receipts from operations and the cash that is needed to meet financial commitments.

In these circumstances a small shortfall of earnings below projections will lead to a collapse of the value of the funny monies and junk bonds. Furthermore, as the surviving companies in such take overs have no margin of safety they cannot finance resource development, new products or basic research. In a world that remains technically progressive the companies that emerge from these financial manipulations have had their future prospects dissipated by the need to use funds to meet commitments on their outstanding funny money and junk bonds. They will not be in a position to be the engines of economic progress.

There is a peculiar, unwritten social compact between society and corporations. Corporations are allowed to exist, often possess considerable market power and remain largely autonomous and unregulated as long as they are not blatantly exploitive and as long as they take a long view and plow back a large part of their earnings in developing products and resources. But this long view is feasible for a corporation only if most of the cash flow earned is not pledged to the payment of interest on debts. Whereas corporations with controlled indebtedness are often engines of progress, heavily indebted corporations, such as the current financial manipulations are putting in place, cannot afford to "waste" funds by providing for our economy's tomorrow.

In his greatest work *The General Theory of Employment, Interest and Money* Keynes remarked that

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.

What we are witnessing now validates Keynes' remark. The managements of corporations that may be put into play by Wall Street operators are now more concerned with the prospect of hostile takeovers than with the capital, resource, and product development of their company. The loss of markets both at home and throughout the world by American firms shows that our capital development has not been too well done in recent years. The greater corporate debt burden that will result from these billion dollar speculations means that it is likely to be done even more poorly in the future.

The country wants and needs technical dynamism. Through much of the past forty years the

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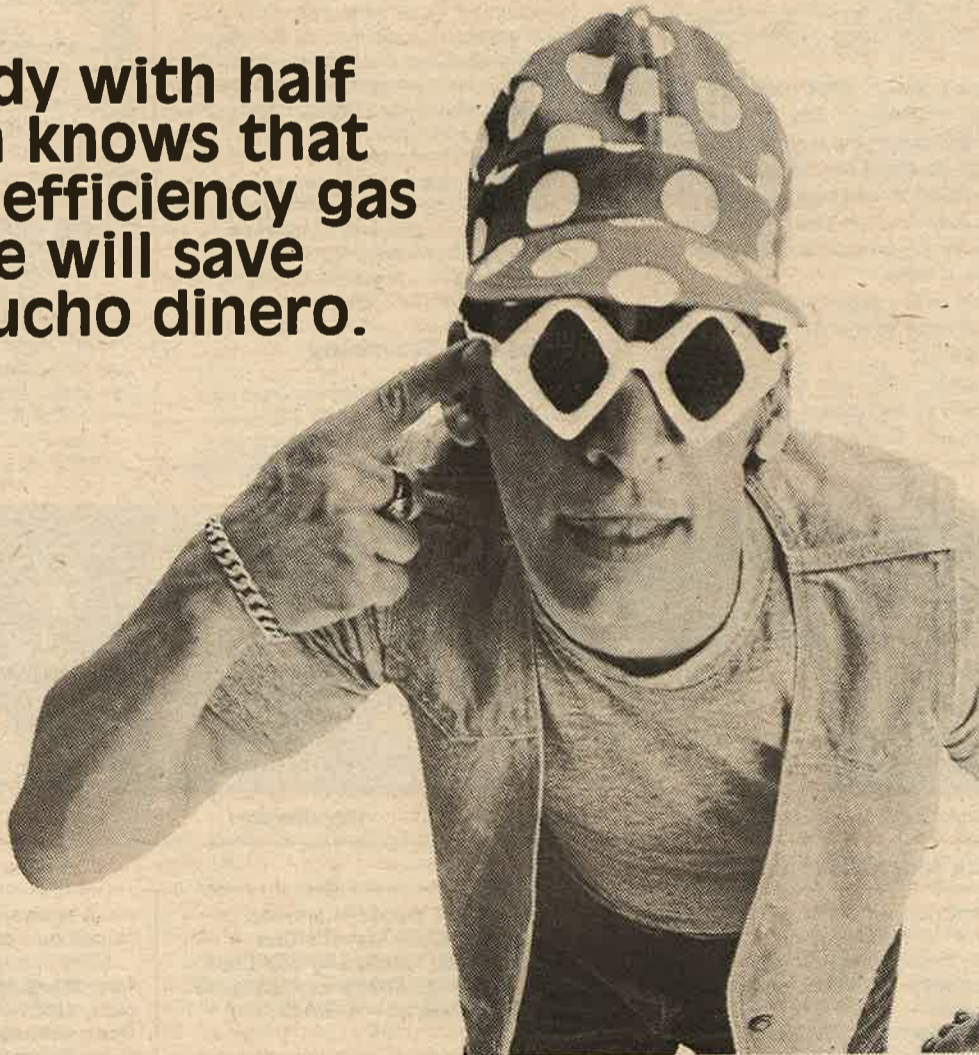
Hyman P. Minsky is a professor of economics at Washington University, St. Louis, and a regular SJR columnist.

Takeover mania is creating corporations that are heavily indebted and unable to steer capital into development.

HEAT PUMP SCHMEAT PUMP!

Wise up Vernon.

Anybody with half a brain knows that a high efficiency gas furnace will save you mucho dinero.



**Laclede
Gas**

Ted Turner's funny money could collapse if a newly acquired CBS's earnings fall short of projections.