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into Corporate Takeovers  
in the United Kingdom**

No 2

**THE TAKEOVER BOOM:  
AN INTERNATIONAL AND HISTORICAL  
PERSPECTIVE**

**Graham Bannock**

Hume Occasional Paper No.15

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INQUIRY INTO CORPORATE TAKEOVERS IN  
THE UNITED KINGDOM

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**PERSPECTIVE**

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**1990**

# INQUIRY INTO CORPORATE TAKEOVERS IN THE UNITED KINGDOM

The David Hume Institute has been commissioned by The Joseph Rowntree Memorial Trust to conduct an Inquiry into the issues raised by Corporate Takeovers in the U.K. This paper is the second of a series presenting the results of research undertaken in the course of the Inquiry, and also submissions of opinion received from individuals and organisations which are thought to be of wide general interest. The Institute hopes in this way to keep the public informed of work in progress. The Final Report will appear in the late Spring of 1991.

The Institute has no collective views on any public policy question and is not committed to the views of any of its authors.

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## Table of Contents

1	INTRODUCTION .....	1
	Objective and Scope .....	1
	Acknowledgements .....	2
2	MEASURING MERGER ACTIVITY .....	3
	Definition .....	3
	The Merger Mechanism .....	3
	Types of Acquisitions .....	4
	Sources of Statistics .....	5
	Coverage .....	5
	Interpretation .....	5
3	TRENDS IN MERGER ACTIVITY IN THE UK .....	7
	Number and Value .....	7
	Internal Versus External Growth .....	12
	The Disappearance of Listed Companies .....	13
	Mergers Among Unquoted Companies .....	13
4	COMPARISONS WITH MERGER ACTIVITY IN OTHER COUNTRIES .....	15
	Volume of Activity .....	15
	Trends Over Time .....	16
	Summary .....	22
5	OTHER DIMENSIONS OF MERGER ACTIVITY .....	24
	Mergers Considered by Regulatory Authorities .....	24
	Divestments .....	25
	Cross Border Acquisitions .....	27
	Methods of Financing and the Influence of Stock Prices .....	27
6	CONCLUSIONS .....	31
	The Facts .....	31
	Comment .....	32
	REFERENCES .....	36
	APPENDIX .....	37

## Table of Figures

3.1: Number of Acquisitions, UK 1954-88 .....	7
3.2: Expenditure on Acquisitions, UK 1954-88 .....	8
3.3: Expenditure on Acquisitions as Percent GDP, UK .....	8
3.4: Expenditure on Acquisitions as a Percentage of GDP .....	10
3.5: Real Expenditure per Acquisition, UK 1954-88 .....	11
3.6: Investment in External Growth, UK 1960-89 .....	12
4.1: Value and Number of Acquisitions, 1988 .....	15
4.2: Number of Acquisitions, US 1954-88 .....	17
4.3: Expenditure on Acquisitions, US 1954-88 .....	18
4.4: Expenditure on Acquisitions as Percent GDP, US .....	18
4.5: Real Expenditure per Acquisition, US 1950-88 .....	19
4.6: Number of Acquisitions, Japan 1947-88 .....	20
4.7: Expenditure on Acquisitions, Japan 1970-88 .....	21
4.8: Expenditure on Acquisitions as Percent GDP, Japan .....	21
4.9: Real Expenditure per Acquisition, Japan 1972-88 .....	22
4.10: Number of Mergers in UK,FRG,Canada,France,US .....	23
5.1: Sales of Subsidiaries, UK 1969-88 .....	26
5.2: Expenditure on Acquisitions and Share Prices, UK .....	28
5.3: Expenditure on Acquisitions and Share Prices, US .....	29
5.4: Expenditure on Acquisitions and Share Prices, Japan .....	29

# 1 INTRODUCTION

## Objective and Scope

The purpose of this paper is to provide a preliminary statistical background for the work of the David Hume Institute Inquiry into Corporate Takeovers. The core of the paper sets out some of the readily available statistics on the number and value of acquisitions for as long a period as possible, not only for the UK but also for the United States, Japan and a number of other countries (Sections 3 and 4). No one else seems to have attempted long term international comparisons of merger activity.

An international approach was adopted because although the scale of acquisition activity varies from country to country there is a clear tendency for this activity to increase everywhere. It was hoped that examining take-over phenomena overseas, as well as in the UK would help to throw some light both upon the universal forces at work and the reasons for differences in outcomes. At the same time it is important to adopt as long a time scale as possible to ensure that conclusions reached are taken in an historical perspective. This is particularly important because takeover activity takes place in waves and it is not at all obvious that the amplitude of the present wave, which is causing such concern, is in fact greater than that of earlier waves in the 1960s and 1970s, or for that matter at the turn of the century, when the growth in the economy is taken into account.

The next section looks at the various problems of making comparisons of acquisition activity over time and between countries and briefly discusses the sources and coverage of merger statistics. This too is important because all statistics on mergers are far from comprehensive and coverage varies greatly from country to country. For example, a widely reported recent study for the Department of Trade and Industry stated that according to one source of data, 73 per cent of the number and 85 per cent of the value of acquisitions in the European Community in 1988 were made in the UK (COOPERS & LYBRAND 1989). Although qualifications about the data were emphasised in the report, the impressions given were very misleading. In fact it is doubtful if the UK accounts for even 20 per cent of merger activity in the EC by number, although the UK share of the total value of mergers is undoubtedly very much higher.

Section 5 looks very briefly at some of the characteristics of acquisition activity. Acquisitions are of different kinds, have different motives and are financed in different ways. This is a vast subject and our treatment is highly selective and more narrowly focussed upon the UK.

Section 6 summarises our factual conclusions and briefly raises some of the fundamental questions which need to be answered in considering what needs to be done about the regulation of mergers.

## **Acknowledgements**

Thanks are due to Josephine Neilson who assisted me with the paper not only in researching the facts but in selection and interpretation. The staff of Graham Bannock and Partners Ltd created the large number of charts which we have used to bring some shape to the mass of numbers involved. I am grateful to Alan Peacock, Victor Morgan, my partner Robert Pringle and Evan Davis for comments and valuable suggestions. The views expressed are my own and do not necessarily reflect those of the Steering Committee or my colleagues.



## **2 MEASURING MERGER ACTIVITY**

### **Definition**

By mergers, take-overs and acquisitions (in this paper those terms are used as synonyms) we mean the transfer of ownership of a business from one enterprise to another. In the UK (though not necessarily in other countries) the terms usually imply the transfer of management control as well as ownership and this transfer may be full or partial. To make any real sense in the present context, the transfer has to involve the acquisition of control of the voting equity of the acquired company (ie: more than 50 per cent). Ideally we should wish to exclude the acquisition of minority stakes in one enterprise by another, though as we shall see, it is not always possible to do this.

A distinction is sometimes made between mergers and acquisitions, but it does not seem to be a very useful one. It is very rare indeed for two companies to merge on equal terms and in practice even when this does happen, one management group generally comes out on top and imposes its management culture on the organisation. Where this is not feasible, it is not unknown for the entity to be de-merged as in the Dunlop-Pirelli merger in the 1970s.

### **The Merger Mechanism**

Acquisitions are a fairly common feature of business activity among all but the smallest firms which have little to sell but the personal skills of the proprietor. For those firms which grow beyond that point, customer goodwill, locational advantage and plant, fixtures and fittings progressively have a transferable value. With continued growth more substantial tangible assets may be created, while the unique products or services and the team of people and organisation built up to provide them, also increasingly have a transferable value.

At the same time, as firms grow they are increasingly able to develop the managerial resources to seek out, negotiate and digest acquisitions and to generate or borrow the necessary financial resources to execute them. External growth through the medium of acquisitions is, in many circumstances, a quicker and cheaper route to expansion than internal growth, allowing immediate access to greater capacity and market share. It involves much less risk than green field investment and promises a tempting short circuit through the time consuming and often painful process of building up customer confidence and the trial and error of innovation and organisation building. Moreover, increases in organisational size offer scope for economies of scale, not least in the command over financial resources which make

acquisitions as well as internal growth possible. For the larger firm, acquisitions provide a further bonus in eliminating, if only temporarily, sources of competition from smaller rivals.

## Types of Acquisitions

Statistics issued by the BSO define a merger as taking place 'when a new company is set up to acquire the two (or more) merging companies'. There was only one of these cases in each of the years 1985-87 and none in 1988 and we have included them with 'other acquisitions of independent companies'. The BSO also shows separately 'sales of subsidiaries between company groups' (these are called spin-offs, transactions of this kind within an enterprise are, of course, ignored). As we shall see, divestments which do not result in the elimination of an independent enterprise from the business population, but may create a new one, as in a management buy-out or buy-in, are of growing importance. Except where otherwise stated, however, although we exclude buy-outs, where-ever possible we have included acquisitions of subsidiaries in our totals of merger activity, at least for the purpose of looking at long term trends or comparisons between countries.

Many other classifications of merger activity may be made: there are hostile and friendly take-overs, those between or involving quoted and unquoted companies and cross-border acquisitions, for example. Merger activity can be analysed in terms of the number of transactions (number of businesses acquired) the number of acquiring companies or the value of expenditure<sup>1</sup>. Mergers may also be classified according to their implications for the structure of the acquiring company. The usual distinctions made in this respect are between acquisitions which are vertical, where a business acquired a supplier or a customer; horizontal where a business acquired a competitor or conglomerate or diversifying where a business acquired another in a different activity. However, in practice, these distinctions are not always easily made and may need careful definition, as when a volume car producer acquires a sports car manufacturer.

Joint ventures, where one business establishes a new subsidiary in shared ownership with one or more others - for example to manufacture car components - are not, from our point of view, new acquisitions, but rather new subsidiaries. However, depending upon their share structure and purpose they are included in merger statistics in some countries.

---

<sup>1</sup> Value data may be in terms of the consideration paid or the book value of assets acquired. We have ignored this distinction in our international comparisons, but since the latter is generally lower than the former it could make a big difference. In Germany and Japan, for example, book values are more likely to be at historical cost.

Finally merger statistics may cover the whole economy or may be restricted to manufacturing or some other subset of sectors. The BSO's figures for the UK that we use, cover industrial and commercial companies only (financial companies are excluded) and are restricted to acquisitions of UK companies in the UK by UK companies. (Cross border acquisitions, ie acquisitions of UK - by foreign companies and foreign companies by UK companies are excluded from the basic series we use).

## **Sources of Statistics**

The Appendix gives details of selected sources of statistics on mergers in various countries. These sources are of two main types: counts based on press reports and counts derived from regulatory procedures. Neither type is comprehensive, since not all small mergers are reported in the press and regulation is normally only concerned with larger mergers. A third type of source which normally covers only quoted companies are database records based on company annual reports. In addition, in some countries certain transfers of business ownership are registered with public authorities, either at local registers maintained by Chambers of Commerce or other bodies, or as in the UK, for incorporated businesses only, at Companies House.

## **Coverage**

The apparent scale of merger activity may, therefore, largely depend upon the source used. The official BSO series for the UK which, after 1969, is based on press reports and includes many mergers with a value of £100,000 or less shows, for 1988, 1,244 domestic acquisitions of non-financial companies with a total value of over £22billion, perhaps 80 per cent being accounted for by quoted companies. However, large numbers of small acquisitions are not reported in the press. We show in Section 3 that the total number of business transfers in the UK is probably of the order of 30,000.

In the Federal Republic of Germany (FRG), the Federal Cartel Office (BKA) reported 876 mergers for 1988 (excluding joint ventures, but including some cross border acquisitions) but private counts based on Chambers of Commerce filings (which are not comprehensive) put the total at 2,206,

## **Interpretation**

This incompleteness of all statistics on acquisitions is not important for our purposes. When Bloggs & Son acquire the drapers shop next door, no major issues for public policy are raised, at least at a national level, but it is important to have some idea of statistical coverage.

There are several pitfalls in the interpretation of merger statistics. One is that some series use money thresholds for the inclusion of mergers. This may apply both to statistics based on press reports and to the consideration of mergers by regulatory authorities. For example, the WT Grimm series for the United States that we use has, since its inception in 1963, excluded acquisitions with a value of less than \$500,000. The effect of inflation is, of course, to impart an upward bias to this series since in real terms, more smaller mergers are now included than in earlier years. This particular problem does not affect the BSO's data for the UK which has no cut-off value, though all series based on press counts are subject to bias if press coverage improves over time or more press sources are used.

The other pitfall is analogous to the first. Not only does inflation affect money values but it is to be expected, everything else remaining the same, the number of acquisitions would grow and their value increase as the economy grows and the number of business enterprises and the size of some of them increases. For this reason, in sections 3 and 4 we have preferred to reach judgements about the scale of merger activity by relating it to the value of the Gross Domestic Product (GDP) as well as, where appropriate, expressing values at constant prices using, for want of a better measure, the implied GDP deflator<sup>2</sup>. It might be more appropriate to relate merger activity to the value of the total capital stock, but this is not so easy to do on an international basis and it would probably not affect our conclusions.

It is particularly important to relate merger activity to GDP or some other aggregate when making international comparisons of the scale of this activity. As we shall see the value of merger activity in the UK in 1988 was much lower than in the United States, but expressed as a percentage of GDP it is somewhat higher. When, as an alternative measure, the number of mergers per £billion of GDP is used, we find that the UK also emerges with a larger number than the US because US mergers are, on average, much bigger than in the UK. We have used number of mergers per £billion of GDP only because value data is not available for some countries.

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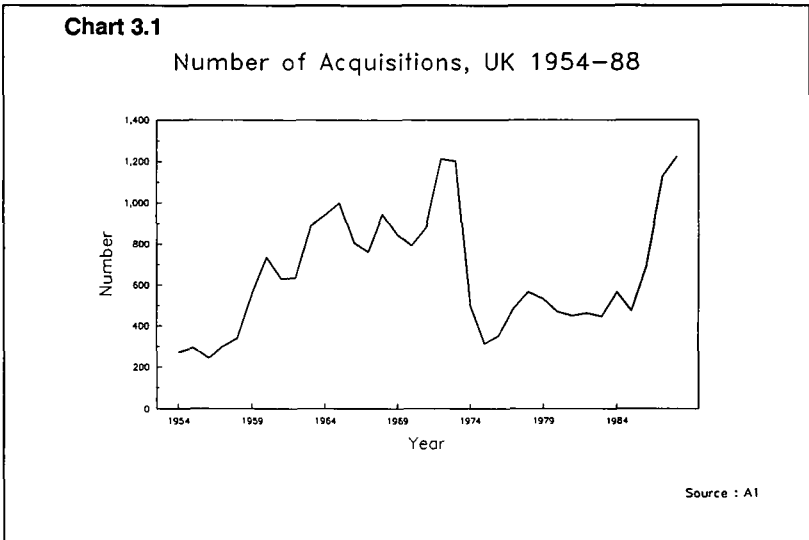
<sup>2</sup> The GDP deflator is a broad measure of price changes in the economy. It is 'implied' because it is calculated by dividing estimates of the GDP at current prices (current money values) by estimates at prices of some given year.

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### 3 TRENDS IN MERGER ACTIVITY IN THE UK

#### Number and Value

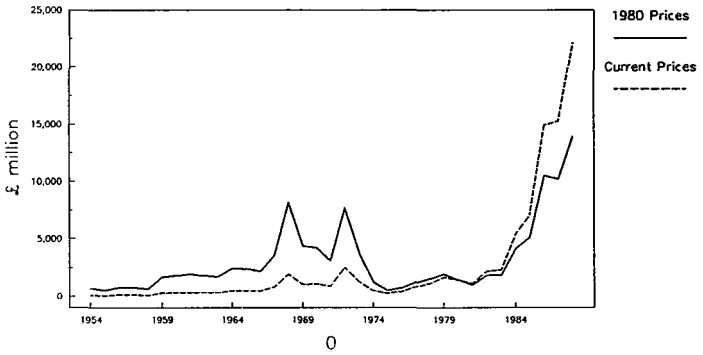
According to the official series, the number of acquisitions has fluctuated about a rising trend since the middle 1950s with peaks in 1965, 1972 and 1988. (Chart 3.1). In terms of expenditure the increase is more dramatic (Chart 3.2). Even in real terms, expenditure on acquisitions in the current boom dwarfs that in earlier booms and is growing at a compound rate. The provisional figures for 1989 which became available as we went to press show a further increase over 1988 in terms of value, though not in terms of number.



Expressing expenditure as a percentage of GDP which is also growing at a compound rate, however, helps to bring matters into perspective (Chart 3.3). When growth of the economy is allowed for in this way, merger activity in the current boom is greater, but not very much greater than in the 1968 and 1972 waves.

**Chart 3.2**

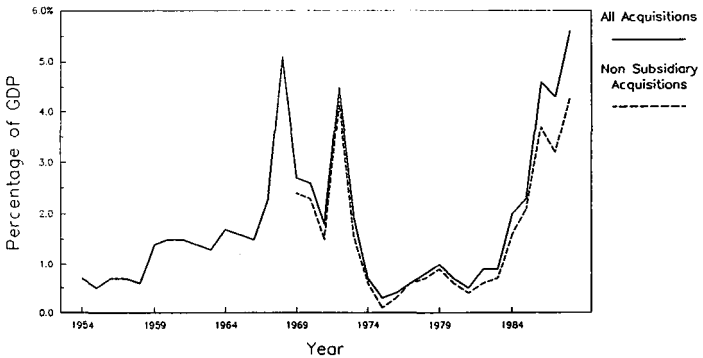
**Expenditure On Acquisitions, UK 1954-88**  
Current Prices and 1980 Prices



Source : A1

**Chart 3.3**

**Expenditure on Acquisitions as a Percentage of GDP**



Source : A1

There have been two other important merger waves, one at the end of the 19th Century and the other in the 1920s. Both of these earlier periods saw the creation of giant firms, many of which have continued to grow by acquisition or formed the basis for further groupings in subsequent waves. The 1890s saw the formation of three textile groups, grouping together 88 separate enterprises as well as United Alkali (later in 1926 to form one of the constituents of ICI), Imperial Tobacco and Associated Portland Cement and other groups still recognisably in the take-over business today.

The 1920s saw the creation through mergers of Unilever and Distillers, as it did of GEC, English Electric and AEI (the former was to absorb the two latter in the next wave in the 1960s) as well as Bass, J.Lyons, Cadbury-Fry, Metal Box and Joseph Lucas. (Patrick Vieillard in PROT & DE ROSEN 1990). The 1960s saw the re-appearance of some of these names on the merger scene again and the creation inter-alia of the British Aircraft Corporation and British Leyland, the former to take over the latter in the guise of the Rover Group in the current boom.

HANNAH (1975) produced a statistical series on the value of manufacturing firms disappearing through merger which enable us to carry back our calculations of the value of mergers as a per cent of GDP to the 1890s. (Chart 3.4) It can be seen that on this basis the post war merger waves are vastly more important than those of the earlier period.<sup>3</sup>

What is spectacularly different in the current wave compared with earlier post war waves is the average real size of acquisitions (Chart 3.5). This does not seem to reflect the impact of just one or two large mergers in each year, but an increase in the number of acquisitions over £25 million which is vastly greater than would be expected from the effects of inflation (Table 3.1). The proportion of total expenditure on acquisitions accounted for by the 5 largest was, we calculate: 30 per cent in 1970, 21 per cent in 1980, 36 per cent in 1982. It was as follows in the succeeding six years: 65,36,72,17,11 and 16 per cent<sup>4</sup>; thus no upward trend is discernible. It will be noticed that the peaks in real expenditure per acquisition in Chart 3.4 coincide with the peaks in both numbers and total expenditure on acquisitions reflecting the fact that merger waves are largely a phenomenon affecting larger firms.

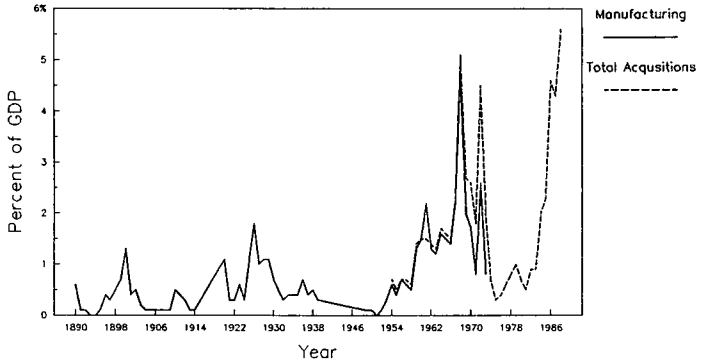
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3 It should also be noted that Hannah's figures relate to manufacturing companies only. Merger activity in non-manufacturing is vastly greater today than it was in the 1890s but the importance of non-manufacturing mergers dates from the 1960s. Hannah expresses his value figures as a percentage of Gross Fixed Capital Formation: 51 per cent in 1926 and 37 per cent in 1971. This decline presumably reflects the increased capital intensity of manufacturing. Hannah points out that the use of value figures to measure the changing importance of mergers does mean that when A takes over B and A & B take over C, the transfer of B's assets is counted twice. Our series therefore measure the churning of industrial ownership as well as the net disappearance of enterprises.

4 Based on the value of the Top 5 mergers from the Times 1000 expressed as a percentage of total expenditure on acquisitions from Table A.1. The Times data relate to fiscal years so that it is the trend rather than individual year figures which is significant.

**Chart 3.4**

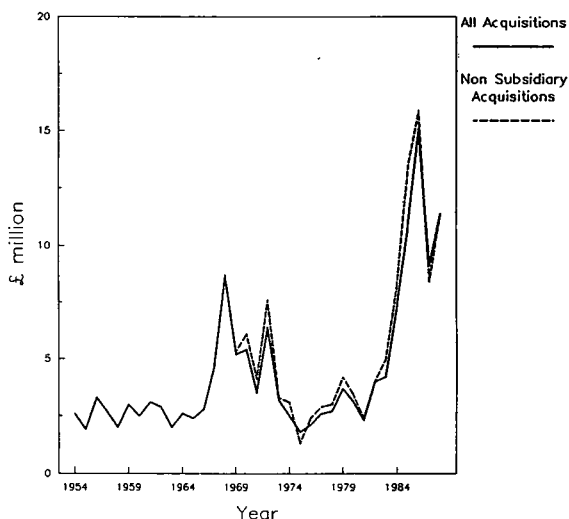
**Expenditure on Acquisitions  
as a Percentage of GDP**



Source: A.14

The official series we have used includes not only acquisitions of independent companies, but also sales of subsidiaries between groups. As can be seen from charts 3.3 and 3.5, the exclusion of these divestments does not alter the basic pattern though it is worth noting that in relation to GDP it brings the current scale of activity below both previous peaks (see Section 5).



**Chart 3.5****Real Expenditure per Acquisition, UK 1954-88**

Source : A1

**Table 3.1: Total Expenditure on Acquisitions by Size Category of Acquired Company**

Year	<£0.5m	No	£0.5-£5m	No	£5-£10m	No	£10-£25m	No	>£25	No
1981	39.1	225	327.0	181	135.6	19	300.6	17	341.5	10
1982	40.2	232	314.3	173	182.5	26	269.1	17	1,399.5	15
1983	36.2	187	373.5	198	230.2	32	334.9	20	1,368.1	10
1984	45.5	195	495.2	259	295.6	41	623.8	41	4,014.7	32
1985	29.2	149	367.2	260	348.9	48	636.4	39	5,707.8	38
1986	38.3	198	578.3	289	512.8	73	1,112.5	72	11,292.9	63
1987	58.4	285	1,045.7	529	774.8	108	1,445.7	96	12,038.2	107
1988	69.2	344	1,114.0	558	793.2	111	1,502.7	95	18,643.6	116
Per cent increase										
1981-1988	77		241		485		300		4,459	

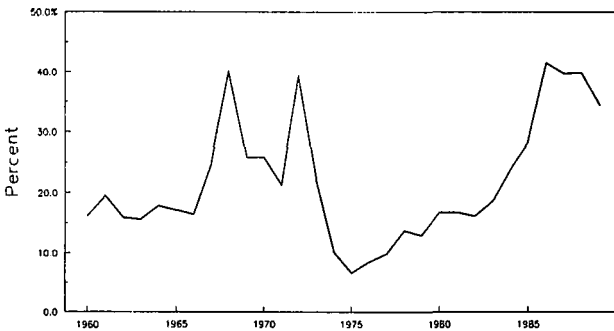
Source: Business Monitor MQ7

## Internal Versus External Growth

Another way of looking at the scale of merger activity is to relate expenditure on external growth by acquisitions, at home and abroad, to expenditure on internal growth, that is on investment in existing businesses. This cannot be done very precisely, but in Table A.9 we have made use of statistics on sources and uses of capital funds. In the current take-over boom, UK companies' expenditure on UK acquisitions is equivalent to about 50 per cent of Gross Domestic Fixed Capital Formation (GDFC). If we take account of their investment abroad and acquisitions made abroad their total expenditure on acquisitions (external growth) was equivalent to about 40 per cent of total investment in each of the years 1986-88. This is about the same as in the previous peaks in 1968 and 1973 (Chart 3.6). The overseas element in external growth has, however increased considerably, from 2.0 per cent of total investment in 1968 to 5.5 per cent in 1973 and 15.8 per cent in 1987. These figures need to be interpreted with care. For an individual enterprise, the use of cash (or paper) for acquisitions is an alternative to the use of these resources for internal growth, though this is not so for the corporate sector as a whole. Foreign acquisitions, at least in the short term, may be a drain on the use of funds in the domestic corporate sector.

**Chart 3.6**

Investment in External Growth as Percentage  
of All Investment, UK 1960-88



Source: A.9

## The Disappearance of Listed Companies

Since 1973, the number of UK companies on the official list of the International Stock Exchange has fallen by 43 per cent to 2,054 (1988) compensated to only a minor extent by an increase in the number of foreign listings from 397 to 526 (Table A.10). Over 58 per cent of the listing cancellations followed acquisitions (the rest were at request or for other reasons, for example liquidation). In fact, the number of new listings of domestic companies has been insufficient to replace those disappearing through acquisition. It is true that there have also been flotations on the USM and the Third Market, but even if these are included with the number of listed companies, the total has still fallen very substantially.

## Mergers Among Unquoted Companies

For the reasons given at the beginning of Section 2, there is always a strong latent demand for acquisitions and the propensity to merge increases with the size of the firm. Table 3.2 based on a recent survey of UK unquoted companies carried out by GB&P for 3i PLC (Investors in Industry) confirms the positive relationship between size and acquisition intentions. According to the same survey, a much higher proportion of PLCs were planning to make acquisitions than were family controlled private companies.

Table 3.2: Percentage of unquoted companies intending to make one or more Acquisitions in 1990.

No of Employees:	<20	20-99	100+	No of Respondents
Scotland	22.3	28.1	63.1	875
North East	28.1	31.6	69.2	250
Greater London	27.4	50.7	98.4	425

Source: Enterprise Regional Surveys No.1 3i PLC, February 1990. Respondents were predominantly unquoted companies with a turnover of between £350,000 and £12 million: the lowest size band is not, therefore, representative of the smallest firms.

If applied to estimates of the total numbers of business enterprises by size class in the UK (DoEM, 1989), these intentions produce an estimate of about 30,000 expected acquisitions by firms employing 20 or more people. This is a large number, but it still excludes acquisitions by the smallest firms.

The reader who thinks that the figure is still too large has only to compare it with the size of the stock of all VAT registered businesses in the UK in 1988, 1.574 million, and the number which de-register through sale, closure or for other reasons of 166,000. As another check we can assume that the total number of saleable businesses is equal to the number employing 5 people or more which is 500,000. At 30,000 acquisitions a year this would imply on average that each of these

businesses would be sold only after 17 years, though in reality of course this group is not a fixed population, but one that is changing through births and closures all the time.<sup>5</sup>

It is plain that the 1,224 acquisitions recorded in the UK in 1988, though accounting for the major part of the total value of acquisitions, represent only the activities of the larger companies. We have dwelt on this small part of the volume of mergers in order to emphasize the dynamic and pervasive nature of the whole process. One of the points returned to in our conclusions is that the stance taken on the implications of mergers for public policy may depend to some extent on the view taken about the strength of new enterprise coming up from the lower ranks of the business population.

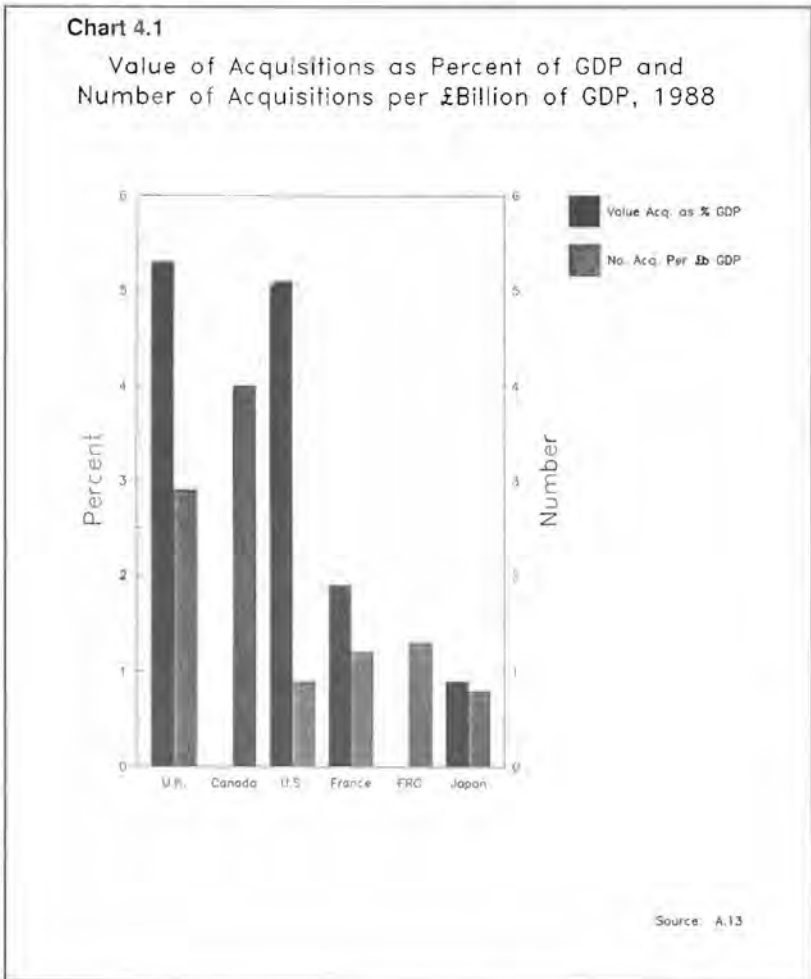
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<sup>5</sup> There is every reason to suppose that smaller acquisitions take place on a similar scale in other countries. For example in France 33 per cent of small and medium enterprises with 200 or more employees acquired one or more other enterprises in 1986 (E de la Chaise of Credits d'Equipement des PME in EFMA (1989)).

## 4 COMPARISONS WITH MERGER ACTIVITY IN OTHER COUNTRIES

### Volume of Activity

As explained in Section 1, international comparisons of merger activity are very difficult because of differences in the coverage of the available statistics. In Chart 4.1 we show the results of comparisons of the UK and five other countries for 1988.



For all six countries we compare the number of acquisitions per £billion and, for the four countries for which the necessary data is available, the value of assets acquired as a percentage of GDP. As a share of GDP, the UK and the US have a much greater level of merger activity than France or Japan. In terms of the number of acquisitions per £billion of GDP, Canada and the UK dwarf all the other countries. On this measure, US merger activity is little more than Japan's and actually less than in France or Germany. The low placing of the US in terms of the number of acquisitions per £billion of GDP as compared with value as a percentage of GDP is to be explained by the fact that the average unit value of acquisitions in the US is almost three times higher than the UK's and five times higher than Japan's.

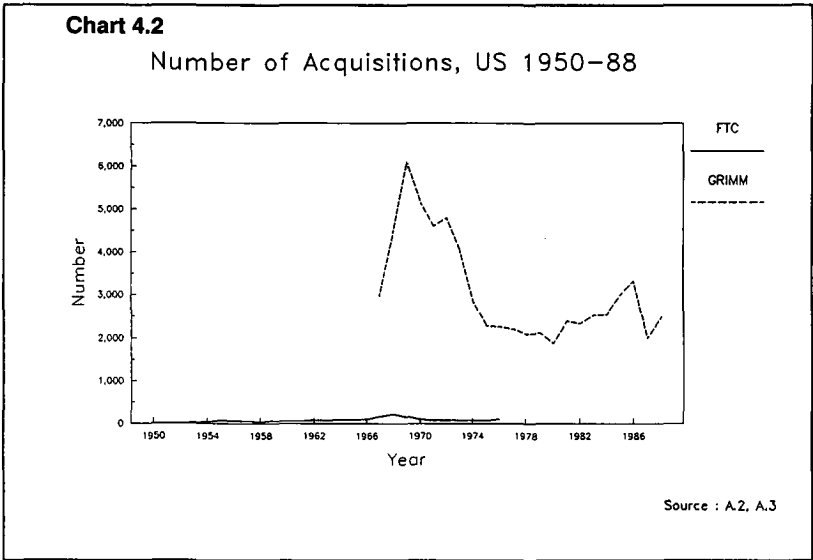
The US and the UK have the largest average unit values for acquisitions and by far the largest levels of merger activity as a percentage of GDP. It is these characteristics of merger activity which appear to distance them from France and Japan and also, it seems, Germany. It is a pity that there are no value data available for Canada but at a guess Canada would come out high on this score also. Two other smaller countries, the Netherlands and Sweden, for which data are given in the Appendix, also appear to have large numbers of mergers in relation to the size of their economies.

Given the limitations of the data, these comparisons are far from precise. The German data probably exclude quite a large number of smaller mergers which would be included in the UK, but against this, partial acquisitions are included in Germany but excluded in the UK. The UK data are, on the other hand, understated compared with the US figures which also include partial acquisitions and do not relate to completed mergers but to announcements, some of which are subsequently aborted. We are confident that however it is measured, merger activity is relatively greater in the UK than in the US, and very much greater than in France, Germany or Japan.

## Trends Over Time

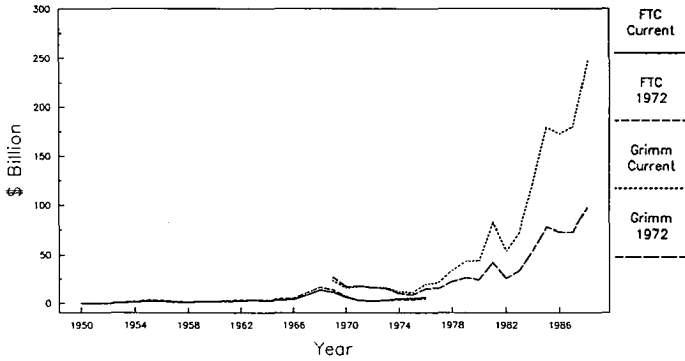
Charts 4.2 - 4.5 for the US also show increases in merger activity in relation to GDP and increases in the average real unit value of acquisitions. It should be noted that the US series cover manufacturing only up to 1976 whereas the later, Grimm series covers the whole economy for which average unit values are lower. The US series on the number of mergers increases steadily from the 1980s (however the effect of the constant threshold exerts an upward bias) and the expenditure series increases faster. The result is to increase the average real value per acquisition though less rapidly than in the UK, where the tendency for merger waves to be associated with exceptional increases in unit values seems to be more pronounced. US expenditure on acquisitions as a percentage of GDP has increased in the current wave to well above the levels of the previous post war boom. It seems, therefore,

that although unit values have increased faster in the UK than in the US, recently expenditure on acquisitions as a percentage of GDP has increased much faster in the US.



**Chart 4.3**

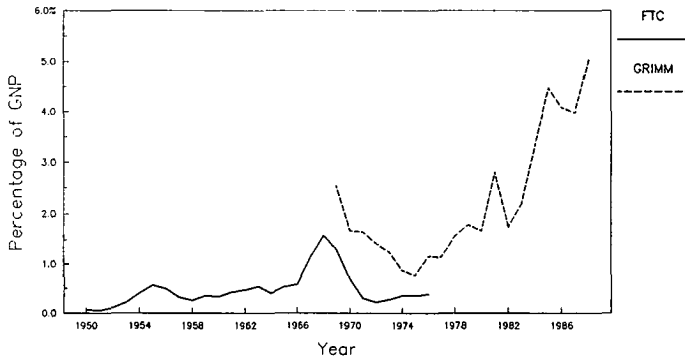
**Expenditure on Acquisitions, US 1950-86**  
Current Prices and 1972 Prices



Source: A.2, A.3

**Chart 4.4**

**Expenditure on Acquisitions**  
as a Percentage of GNP, US 1950-88

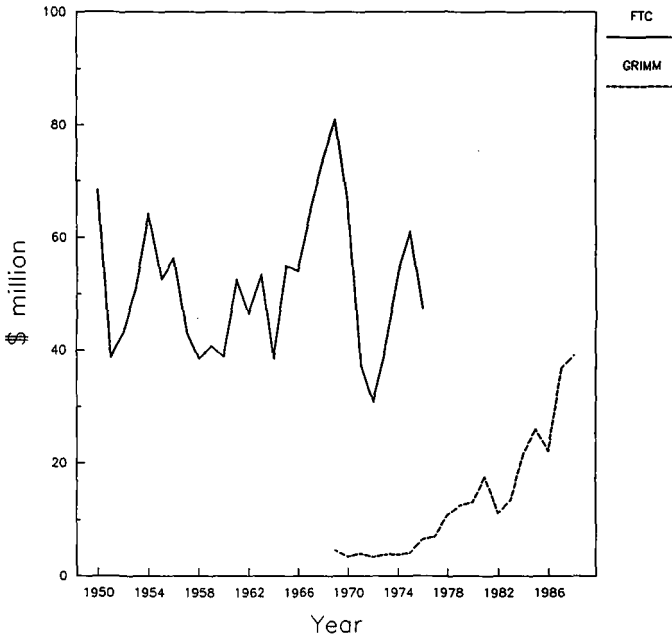


Source: A.2, A.3



**Chart 4.5**

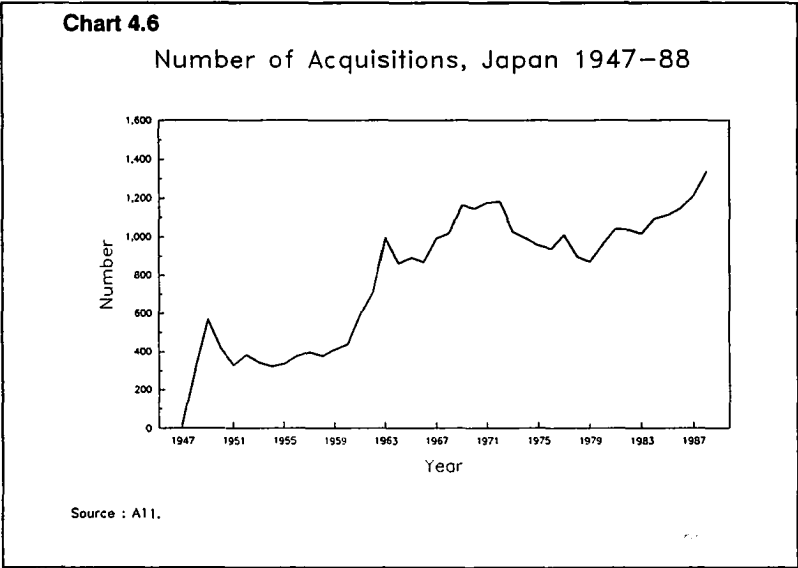
### Real Expenditure per Acquisition US 1950-88



Source: A.2, A.3

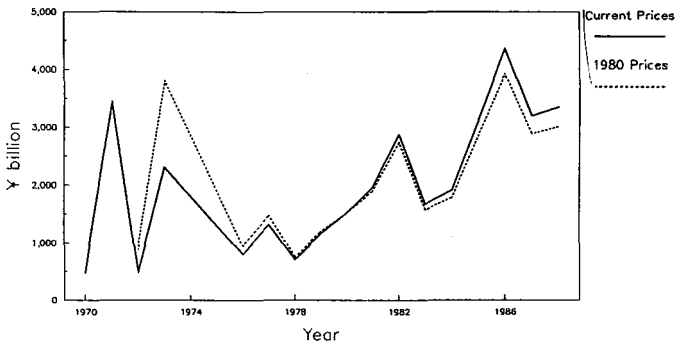
Unlike in the UK, the recent peak in the US is not an all-time high. A careful analysis by Devra L Golbe and Lawrence J White in AUERBACH A. (1988), using data going back to the 1890s, indicates that although the number of acquisitions is higher in the current boom than in earlier waves, the number of mergers per \$billion of real GDP in the current wave is considerably lower than in the 1920s or 1890s. They also show that the value of assets acquired as a percentage of GDP in the US has never returned to the levels of the 1890s when it was of the order of 12 per cent. They were unable to make these calculations for the 1920s.

In Japan, the number of recorded acquisitions has risen substantially over the post-war period, but we have data on values going back only to 1970. (Chart 4.6.) However, in contrast to both the UK and the US, the value of acquisitions in Japan as a percentage of GDP is well below the 1971 peak. The other figures for Japan show an upward trend but not the rapid increase in real unit values found in the UK (Charts 4.7 - 4.9).



**Chart 4.7**

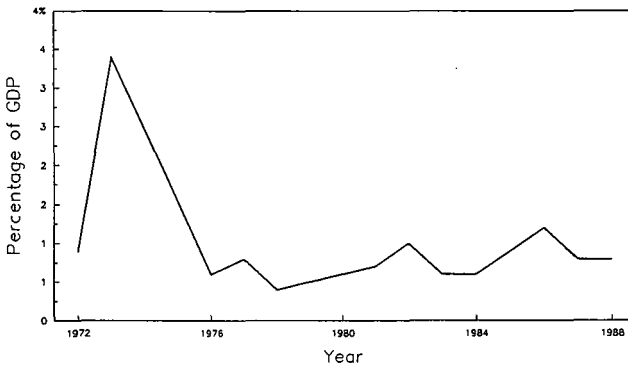
**Expenditure on Acquisitions, Japan 1970-88**



Source : A11.

**Chart 4.8**

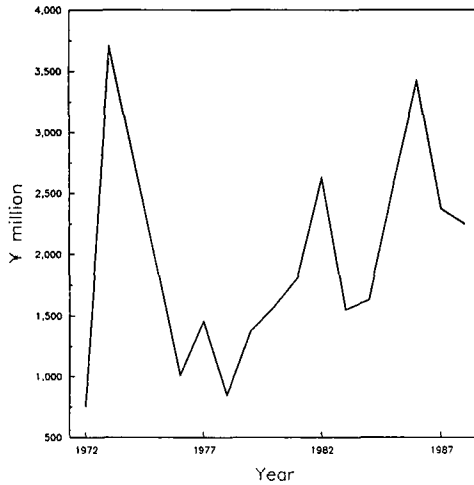
**Expenditure on Acquisitions as a Percentage of GDP, Japan 1972-88**



Source : A11.

**Chart 4.9**

Real Expenditure per Acquisition, Japan 1972–88



Source: A.11

For the other countries we have only limited data. The number of mergers has increased more rapidly in Canada than in Germany. The number of mergers and expenditure on acquisitions has risen very rapidly in France in the current wave and there has also been an increase in unit values.

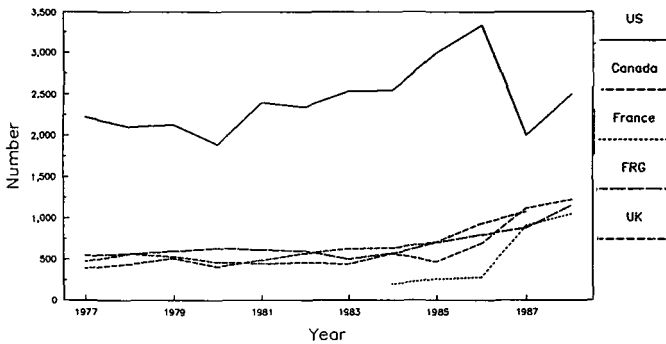
## Summary

Merger activity is now much more important in relation to GDP in the UK and the US and probably also in Canada than it is in France, Germany and Japan. Merger activity is increasing everywhere in the current wave (Chart 4.10) and in particular the real average value of acquisitions is increasing rapidly, especially in the UK.

We can make long term comparisons only between the US and the UK and even then only in the post World War II period. It is perhaps surprising that we have found that in relation to GDP, the current wave is, so far at least, not much more

**Chart 4.10**

Number of Mergers in UK, FRG, Canada, France, US



Source : A3,A1 and A11.

important in the UK than in the earlier waves of the 1960s and 1970s. This is in contrast to the US where the present peak in activity is very much higher than in the 1960s.

Over the very long period, the current wave of mergers is less important in the US in relation to GDP than in the 1890s and probably also than in the 1920s. In the UK by contrast, expenditure on acquisitions as a percentage of GDP has been successively higher in the 1890s, the 1920s, the 1960s and again in the current boom.

## 5 OTHER DIMENSIONS OF MERGER ACTIVITY

The statistics on numbers and values of mergers among larger UK companies that we have been considering are not the only material available on the subject. The overall totals subsume not only mergers of vastly different scale but also a wide range of types of acquisitions for which the motives, methods of financing and other characteristics differ. Moreover the UK statistics cover only completed mergers, in addition there are bids which fail and mergers which though agreed in principle founder before completion. There is some evidence that joint ventures have also increased in number but this potentially important subject is outside the scope of this paper.

### **Mergers Considered by Regulatory Authorities**

Only a small proportion of all mergers, generally the largest, receive attention from the regulatory authorities. In 1988 the Office of Fair Trading (OFT) considered 306 merger proposals qualifying under the Fair Trading Act, 276 of these were industrial and commercial companies. The assets bid for in these proposals being almost £99 billion which compares with the figure of £22.1 billion given in the BSO series. The difference arises mainly because more than one bid for the same target may be included and also because not all mergers are consummated - some are referred to the Monopolies Commission. In addition, the OFT series includes non-industrial and commercial companies. The proposals included in the OFT figures include all very large bids: almost 60 per cent of the assets involved in 1988 were accounted for by companies with assets of £1 billion or more, comprising only 19 bids out of the total of 306. The Take Over Panel also investigated 237 proposals in 1988 (253 in 1989) of which 184 were successful. A large majority of hostile bids fail. Of these proposals in 1988 32 resulted in finally opposed bids. (47 in 1989, 41 in 1973.) 13 of these bids succeeded and 19 failed (11 and 36 respectively in 1989 and 8 and 33 respectively in 1973).

The OFT breaks down the numbers of proposals considered by type of integration. Horizontal mergers, generally considered to be most likely to affect competition, have accounted for some two thirds of the total. Diversifying mergers account for most of the remainder (Table A.8). The broad picture is very similar if mergers are classified by value instead of number.

Table 5.1 provides similar figures from regulatory authorities in other countries, Germany and Sweden also have a high proportion of horizontal mergers, but the majority of mergers in Japan are of the conglomerate type. In the US, horizontal mergers are in principle prohibited, though the number has been increasing in recent years. It is particularly interesting to note that the restriction of horizontal

mergers in the US has not prevented merger activity from assuming similar proportions to the UK where these mergers are not significantly restricted and where concentration of ownership is already very high.

Bids among quoted companies may be agreed with the board of the target company (friendly), or defended (hostile). In recent years the majority of bids in the UK have been agreed. There has been no clear trend in the proportion of contested bids which was about the same (42 per cent) in 1985 and 1988 and as low as 22 per cent in 1987. Figures are not readily available for other countries, though hostile bids in Germany and Japan<sup>6</sup> are apparently virtually unknown and are a very recent and still minor phenomenon in France.

Table 5.1: Percentage of Number of Merger Proposals considered by Type of Integration.

	Horizontal	Vertical	Conglomerate	Total
FRG 1986	71	9	20	100
Japan 1986	22	7	56	100*
Sweden 1980	71	14	15	100
UK 1986	69	2	29	100
US 1979	2	7	91	100

\* Includes 15 per cent unclassified

Sources: Japan: FTC, UK: OFT, other countries: OECD, 1984 op cit.

## Divestments

Not all acquisitions involve take-overs of independent companies. In recent years, between one fifth and one third of total expenditure on mergers and acquisitions in the UK has been accounted for by spin-offs (sales of subsidiaries between company groups (Table A.4)). The proportion of sales of subsidiaries in total expenditure on acquisitions has fluctuated, but is on a rising trend by value, though not by number (Chart 5.1). There are two other types of divestments which are not included in our figures for expenditures on acquisitions: MBOs where management, perhaps with employees, acquire their company from the shareholders and management buy-ins, where an outside management team acquires the company.

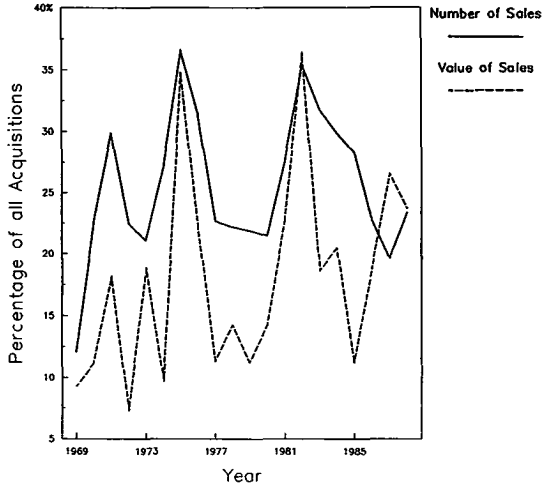
Virtually unknown before the late 1970s, buy-outs and buy-ins have increased rapidly to 478 in number with a total value of £4.9 billion, in 1988. MBOs accounted for 77 per cent by number and 75 per cent by value of this total. (CMBOR, The University of Nottingham). Buy-outs and buy-ins together with spin-offs, plus

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<sup>6</sup> It is significant that the only (unsuccessful) recent hostile bid in Japan by Trafalgar Holdings Glen, for Minebea was an anglo-american bid while Boone Pickens' 1989 unsolicited acquisition of a 20 per cent stake in Koito Manufacturing was fiercely resisted by the Japanese financial establishment.

**Chart 5.1**

Value and Number of Sales of Subsidiaries  
as a Percentage of all Acquisitions, UK 1969–88



Source : A4

acquisitions of independent companies, accounted for £27 billion and, the first three categories account for almost 38 per cent of the value of all transfers of business in 1988. Numbers of buy-outs and buy-ins have also been increasing rapidly in France. In 1988 according to FRANKS & MAYER (1990) there were 100 in France in 1988 and 30 in Germany.

We have included sales of subsidiaries in our totals for acquisitions because spin-offs seem to be included in most of the figures we have used for other countries. Management buy-outs and buy-ins which increase the number of independent enterprises are not included in the BSO series and thus are excluded from our figures. The effect of spin-offs on concentration, which may be relevant to merger regulation issues, depends upon the characteristics of the enterprises that acquire them and we have no data on this. One of the motives for all divestments in recent years seems to have been an attempt by larger firms to concentrate more upon core activities as competitive pressures have increased as well as the attempt to forestall hostile bids. In turn, the capital market has responded by greatly expanding the availability of capital for buy-outs.



## **Cross Border Acquisitions**

Whilst buy-outs and buy-ins are a domestic activity, as noted earlier, an increasing amount of merger activity has been across national frontiers. For the UK, between 1986 and 1988, expenditure on acquisitions of foreign companies by UK companies was running at £5.6 billion and amounted to about 30 per cent of total domestic expenditure on acquisitions over these three years (Table A.6). Acquisitions of UK companies by foreign companies increased more rapidly over the same period, but even in 1988 totalled only £2.5 billion, about 10 per cent of domestic activity. Comparisons over time are difficult because of changes in coverage of data but, despite a general impression to the contrary, there is no evidence that inward cross-border activity has increased in relation to domestic activity. Inward acquisitions expenditure, however, is running at about twice the level of inward direct investment into the UK. Outward acquisition activity seems to have increased substantially following the abandonment of exchange control in 1979, but there is no clear upward trend, more recently at least, in relation to domestic activity.

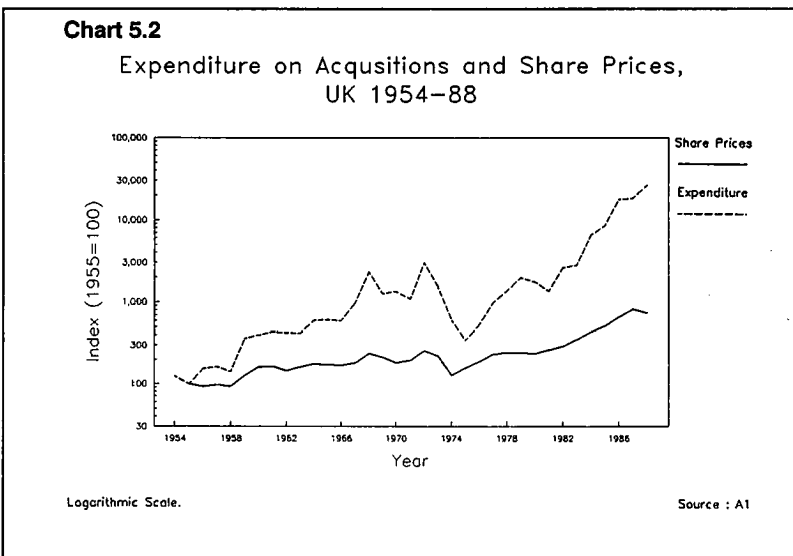
UK companies are spending much more upon acquisitions abroad (and direct investment abroad) than foreign companies are spending here and, in this sense, are a net exporter of long-term capital. Japan with a balance of payments surplus is exporting capital and, according to PROT & DE ROSEN (1990), quoting figures from Daiwa Securities Research Institute, Japanese companies spent ¥1,077 billion on acquiring foreign companies abroad compared with only ¥2.5 billion spent by foreign companies acquiring Japanese companies. Expenditure on acquisitions abroad by Japanese companies, in fact, amounted to 59 per cent of domestic expenditure on acquisitions in 1988. Since 1986 according to the same source, French companies have also spent more on acquisitions abroad than foreign companies have spent in France. The same is true for Germany and to a greater extent. Overseas expenditure on acquisitions has been increasing rapidly by both countries. Since 1975, foreign companies have spent more on acquisitions in the US (except in 1983) than US companies have spent abroad. UK companies are by far the largest spenders in the US followed by Canada, Japan, Australia and Germany.

## **Methods of Financing and the Influence of Stock Prices**

In the UK the use of paper versus cash in acquisitions has fluctuated considerably and there has been no clear trend in favour of one or the other, though on average paper financed bids predominate in total expenditure (Table A.7). The use of fixed interest securities has however tended to decline since the end of the 1960s. Neither tax effects nor the general level of share prices seem to provide satisfactory

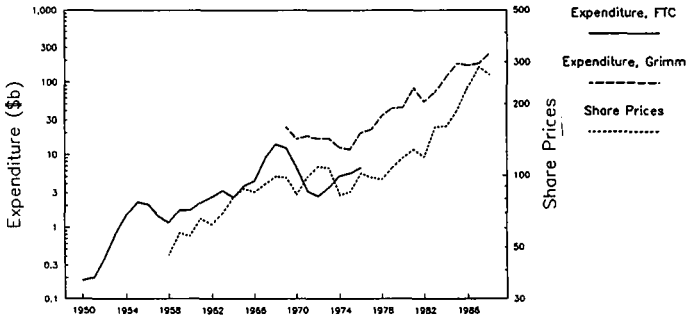
explanations for changes in the proportion of cash expenditure on acquisitions. Nor, according to the Bank of England, have acquisitions been responsible overall for any increase in the debt-equity ratio (gearing) of UK companies.

It has long been known that merger waves are positively related to stock market price indices and the relationship can be seen in Charts 5.2 and 5.3. This seems to be true for most countries, even those like Germany where stock markets play a relatively minor role in corporate finance. However, for Japan the relationship is very weak (Chart 5.4). Despite many attempts, no-one seems to have been able to model the relationship between stock prices and mergers quantitatively in a way that provides a satisfactory explanation.



**Chart 5.3**

**Expenditure on Acquisitions and Share Prices,  
U.S. 1950-88**

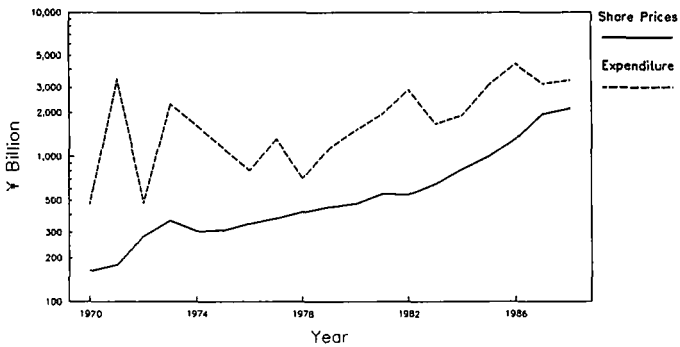


Logarithmic Scale.

Source: A.2, A.3

**Chart 5.4**

**Expenditure on Acquisitions and Share Prices,  
Japan 1970-88**



Logarithmic Scale.

Source: A.11

It may be that the direction of causality is the other way: take over activity stimulates stock market speculation. However stock market and merger booms have always ushered in major changes in both producer and consumer market prospects. This was the case in the 1890s when the railway and the telegraph were bringing the

United States into a single market, it was so in the 1920s when new forms of mass production emerged and in the 1960s as trade barriers between the developed countries came down and markets became more global. It is so again with the approaching completion of the European Single Market.

## 6 CONCLUSIONS

### The Facts

Official statistics only record some 1,200 larger mergers each year. Acquisition activity is pervasive with perhaps 30,000 small but significant business transfers taking place annually in the UK in the present period. Large mergers take place in waves, but the number and money value of mergers reached record peaks in the UK in 1988 and in value again in 1989. Most of these mergers, in value terms, of course, concerned quoted companies.

At current prices and in real terms, expenditure on acquisitions also reached record levels in the United States in 1988. As far as we can tell, in money terms, merger activity also reached record levels in other countries in 1988, though in Japan expenditure on acquisitions peaked in 1986.

When allowance is made for inflation and the growth of GDP, however, merger activity in the UK in the current wave is not very much greater than at the earlier 1968 peak. This is in contrast to the US, where the 1988 peak is much higher than that reached in the 1960s. Over the very long period it seems that, in relation to GDP, merger activity is greater in the UK than at any time in the past, though in the US it was much greater in the 1890s and possibly also in the 1920s.

Merger activity is much more important in relation to GDP in the UK and the US and probably also in Canada, than it is in France, Germany or Japan. Merger activity is not only increasing everywhere in the current wave, but mergers are getting larger, particularly in the UK. Hostile takeovers seem to be much more common in the UK and the US than in the other countries.

In the current wave, UK industrial and commercial companies are devoting about 40 per cent of their total uses of capital funds to acquisitions. This is not more than at earlier peaks, but it is being sustained over a longer period. The proportion of capital expenditure devoted to foreign acquisitions has, however, increased rapidly following the abandonment of exchange controls.

The number of UK companies listed on the Stock Exchange has fallen by 43 per cent since 1973. Over 58 per cent of listing cancellations follow acquisitions. The number of new flotations over this period has been insufficient to replace those disappearing through acquisitions.

Divestment of subsidiaries account for an increasing proportion of acquisition expenditure. Buy-outs, buy-ins and spin-offs accounted for 38 per cent of the value of all transfers of major businesses in the UK in 1988. Management buy-outs (and possibly other divestments) are more important in the UK than in France and Germany, though they are also increasingly frequent in these countries.

Foreign acquisitions by UK companies are growing, but not necessarily faster than domestic acquisitions in recent years. The UK is spending more upon acquisitions abroad (and direct investment abroad) than foreign companies are spending here. The same is also true for Japan, France and Germany. US companies by contrast now spend less on foreign acquisitions than foreign companies spend in the US.

## Comment

At first sight these findings seem to support the view than the current merger boom in the UK should not give cause for especial concern, When economic growth is allowed for, the present merger wave is probably smaller than those of the 1960s and 1970s if divestments are excluded.

It is true that mergers are relatively more important in the UK than in other major European countries or Japan and even somewhat more important than in the US. However, the UK has avoided some of the worst excesses of junk bond financing and acquisitions have not led to any increase in the average gearing of UK companies.

Although in the past, mergers have contributed substantially to increased aggregate concentration in the UK, which is exceptionally high by international standards, there is not much concrete evidence that concentration in product markets has enabled UK companies to earn exceptional returns. It is generally accepted now that the world economy is sufficiently open for domestic concentration to be of limited importance at least in manufacturing. Some at least of the larger mergers involving UK companies are justified, or claimed to be justified, as an appropriate response to the new demands of global competition and specifically to the greater scope for economies of scale in the Single European Market. Finally, aggregate concentration and even market concentration in the UK has actually been declining recently, presumably because of the growth of smaller businesses and the effects of spin-offs and buy-outs (BANNOCK & PEACOCK 1989).<sup>7</sup>

Despite all this and despite the presumption that markets know best, the deep feeling of public unease about mergers seems to be not without foundation. There is ample evidence that many if not most large mergers do not result in the substitution of better management for worse, result in more competition, the realisation of economies of scale, or in more innovation or improved performance in any measurable sense. Too often acquisitions seem to involve the acquisition of a smaller company in a sphere in which the acquirer has proved less than successful. The recent take-over of Jaguar by Ford is a case in point.

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<sup>7</sup> However the latest figures for aggregate concentration in UK manufacturing show an increase.

Whilst the inevitable desires of employees, local interests and managements to be free from the painful effects of necessary change are understandable and have, to some extent to be discounted, there is a lingering suspicion that the longer term interests of consumers and society at large are often sacrificed in favour of short-term (and once and for all) benefits to shareholders in the target companies. Increasingly, it seems, too much of scarce management and talent is devoted to the re-shuffling of corporate assets instead of to the creation of new products, processes and markets which are the true source of additional wealth (DAVIS, KAY & ODAGIRI, 1990).

It is also painfully obvious that the ascending ranking of countries by scale of merger activity - Japan, Germany, France, US, UK - correlates negatively with their rankings in some dimensions, at least, of their long-term economic performance. It would be an error to conclude that the one causes the other, but it is plain that capital markets function very differently in the first two countries compared with the US and the UK.

The economic theory of industrial organisation and finance has yet to digest fully the consequences for the efficiency of capital markets of the growing separation of ownership and control, first measured as long ago as 1932 (BERLE & MEANS 1932). Few directors have more than a tiny ownership stake in the quoted companies they manage mainly on behalf of institutional investors, who in turn are managing not their own but other people's money. The understandable and rational passivity of institutional investors with holdings in successful, but smaller, rivals of acquiring companies allows equally rational managers to swallow up their competitors or simply to grow for growth's sake. The role of investment banks in promoting merger activity, also largely operating with other people's money, should not be underestimated.

The fact that divestments are a growing proportion of merger activity proves that many past mergers have made no sense.<sup>8</sup> There would be less cause for concern about these results of possible imperfections in capital markets if new thrusting sources of corporate competition were emerging in quoted markets, but this does not seem to be the case, at least in the UK.<sup>9</sup>

If there were more competition in product markets there would seem to be less need to enforce changes in management by changes in ownership, now one of

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<sup>8</sup> Not all divestments of course are simply spin-offs of previous acquisitions, some represent the disposal of unwanted parts of acquired companies or even, more rarely, the products of internal growth. In a few cases divestments are made to avoid trouble with the regulatory authorities.

<sup>9</sup> AUERBACH (1988) suggests that merger waves historically have not led to increased concentration in periods of rapid economic growth.

the principal justifications for takeovers. FRANKS & MAYER (1990) argue that there is a trade off between correcting managerial failure and promoting investment. Whether there is or not, these seem to be the key questions upon which to focus.

It appears that contemporary capital markets and particularly those which are heavily stock-market oriented are not very effective in allocating investment between very large and smaller firms and that this is one cause of undesirable levels of merger activity.

There are at least three reasons for this:

- \* Very large firms are, in effect internalising this function of the capital market. Investors may choose to invest in these firms or not, but cannot influence, within very broad limits, how these firms allocate funds internally.
- \* The growth of institutional investors at the expense of private investors (in part-tax induced, (BANNOCK 1990)). The former do not find it economic to invest in small amounts and are moreover subject to pressures for short-term results which favour the disposal of share stakes in hostile bids.
- \* There are considerable economies of scale in finance. This is why institutions cannot afford to invest in small firms and why it is generally large firms which take over smaller firms and not, irrespective of management ability, the other way round (AUERBACH.P. 1988).

It is sometimes argued that economies of scale in finance like economies of scale in production, or marketing, justify mergers. However, economies of scale in finance do not translate into real savings in resources independently of the uses to which the finance is put, as Tibor Scitovsky pointed out long ago. Unless the large firms that can attract capital at the finest rates put these funds to better use than borrowers that pay, or would be prepared to pay, higher rates, then funds are being misallocated.

Present merger policy recognises that the State may need to intervene in some mergers, but traditionally in the UK, and in most countries, regulation focusses too narrowly upon competition in product markets which is assumed to be a function of market concentration. Experienced businessmen, however, know that competition is not a simple function of market share, even if you could define the boundaries of markets, which cannot, in fact, be done in any meaningful way.

The notion that market shares determine competition reflects the neo-classical model of competition which, by assuming away entrepreneurship and innovation, leaves price as the only element in the competitive process (BRENNER 1987). In the real world, thank goodness, competition takes many different forms and even in highly concentrated and uncompetitive industries, external shocks and foreign intrusion may stimulate the competitive process. The motor industry after the 1960s



merger wave was in just such a position, but the oil crisis and the threat from Japan have together been sufficient to unleash a wave of innovation and competition unparalleled since the 1920s

The only infallible sign of competition, in fact, is organisational, marketing, process or product innovation as Brenner points out. In the motor industry mergers have been entirely defensive in character (virtually no successful hostile bids), and have been a reaction to competitive forces not a stimulant to them. In the UK in the 1960s mergers did nothing to arrest the decline of the indigenous industry, but on the contrary eclipsed several possible sources of new growth and innovation (the original Rover Company for example).

The same could be said of other sectors, for example UK electronics and food and drink. More sophisticated means seem to be necessary to judge whether mergers are in the public interest. But are they feasible? The difficulty is that the merger assessment process is already too politicised and relies too much upon vague assertions about economies of scale. The answer may lie in the use of less ambiguous criteria against which mergers can be judged, for example as Brenner proposes, the proportion of sales accounted for by each party of products and processes introduced in the previous, say, 5 years, though the difficulties of actually doing this in practice may be considerable.

It may be that capital markets both in the quoted and unquoted sector are adopting to correct such imperfections in these markets as exist. Michael Jensen for example argues that leveraged buy-outs (LBOs), which accounted for over 30 per cent of the value of acquisitions in the US in 1988 are a force for good (JENSEN 1989). By substituting debt for equity and tighter, highly motivated, management in an unlisted company, LBOs he says, are bringing the US corporate financing system nearer to that of the bank and debt dominated Japanese system while resolving the owner-management conflict.

This may be true but if so it has taken a very long time to emerge, as has the improvement in the financing facilities for smaller firms in the UK, a problem first identified by the Macmillan Committee in 1931. Given that it takes a decade or 50 years or more to build a major innovative company which can lose its independence to a predator in a matter of weeks, can we really afford to wait while capital markets evolve?

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## APPENDIX

### INTERNATIONAL SOURCES OF STATISTICS ON MERGERS

#### JAPAN

The Enterprise Division of the Fair Trading Commission (FTC) in Japan sent us statistics on the number of mergers notified to it. The series runs from 1947 when the Anti Monopoly Act required prior permission for 'all mergers and transfers of business'. The FTC has never prohibited a merger, presumably because notifications are not made unless prior agreement is obtained.

It is not clear what kinds of acquisitions are covered by the series, but in 1988 almost 14 per cent of the acquisitions notified resulted in enterprises with 'a capital size' of less than ¥10 million (£44,000). Only 10 mergers resulted in enterprises with capital of more than ¥10 billion. See Table A.11.

#### UNITED STATES

The Federal Trade Commission ceased publication of its series (given in Table A.2.) on mergers in manufacturing and mining in 1979. There are two other series which cover the whole economy.

The periodical Mergers & Acquisitions lists the number of mergers and acquisitions of domestic companies completed and another series which includes US company acquisition of foreign companies. The lower limit was raised to \$1 million from 1981 onwards.

W T Grimm & Co published data on the number of announcements of mergers and acquisitions. The annual series began in 1963 and has a lower limit of \$500,000. The Grimm series, which includes foreign acquisitions of US companies, is given in Table A.3. Partial acquisitions of 10 per cent or more of a company's equity are included. In recent years the number of mergers in the Grimm series is about 10 per cent higher than in the M&A series.

#### CANADA

The official series of numbers of acquisitions available for Canada shows an increase from 203 in 1960 to 938 in 1986 (1082 for 1987). The series is based on press reports and excludes the service sector until 1976. In 1986, 641 of the acquisitions involved a foreign owned or controlled acquiring company (68 per cent compared with 46 per cent in 1960). Source: Merger Practice and Recent Trends in Mergers. OECD, 1987.

## THE NETHERLANDS

The official series of numbers of mergers notified in the Netherlands shows 86 for 1963, 362 in 1973 and 296 for 1983. Mergers must be notified if they involve an enterprise which employs 100 persons or more. Source: OECD op cit 1984.

## FRANCE

PROT & DE ROSEN (1990) quote PF Publications as the source of the data given in Table A.12. These data appear to include overseas acquisitions and minority stakes in listed companies. FRANKS & MAYER (1990) also quote PF Publications as their source for domestic transactions and a comparison between their figures and ours suggests that in 1988 of the 1,053 transactions in France, 228 involved foreign companies.

## FEDERAL REPUBLIC OF GERMANY

The principal source of data on mergers in Germany is the Federal Cartel Office (BKA) (Table A.12). The Act Against Restraints on Competition required notification if a market share of the combined enterprises of 20 per cent is created or increased, or if their combined employment is 10,000 or more, or if combined turnover totalled DM 500 million. In 1980 the turnover threshold was altered to DM 200 million for either enterprise. However, 283 of the 1,159 mergers notified in 1988 were joint ventures. Mergers completed abroad are also included. PROT & DE ROSEN (1990) refer to a private data collection agency, J.Wupper of Hamburg. The Wupper data has wider coverage and is based upon filings on the registers of commerce. According to Wupper there were 2,206 acquisitions in 1988 and 1603 in 1987.

## SWEDEN

OECD op cit shows no clear trend in the number of mergers notified to the National Price and Cartel Office in Sweden. Since 1974 the lowest number recorded was 582 (1978) and the highest 828 (1975) and 851 (1982). The total for 1987, the latest available, was 631.

## UNITED KINGDOM

The Annual Reports of the office of Fair Trading include statistics on the numbers of proposed mergers considered by the Mergers Panel. In 1987 there were 321 proposals 279 of which concerned Industrial and Commercial Companies.

Comparisons over time are complicated by the fact that the criteria for qualification for investigation have changed. From 1973 the combined market share criterion was reduced from one third to 25 per cent. The assets taken over criterion was increased from £5 million to £15 million in 1980 and again to £30 million in 1984.

In Table A.1 we have shown the DTI series on the number of acquisitions and the amounts paid. We show data only for industrial and commercial companies (financial companies are not covered) and it should be noted that prior to 1969 the data cover acquisitions by quoted companies only though between 1954 and 1968 only acquisitions of foreign companies in the UK by quoted companies were included. The series is based upon press reports from 1969 though for quoted companies, company reports and direct inquiries are also used. Minority stakes are not included nor are acquisitions of foreign companies by UK companies. Table A.6 gives data on foreign companies acquired by and direct acquisitions of UK companies by foreign companies. Acquisitions of UK companies by UK subsidiaries of foreign companies are not included in Table A.6, but they are included in the totals in Table A.1

#### THE EUROPEAN COMMUNITY

The European Commission collects data from press reports on mergers and other operations involving the 1,000 largest enterprises in the EC. In 1987/88 these data show 558 mergers, 321 between firms in the same member state, 146 community cross border mergers and 91 'mergers of firms from member states and third countries with effects on the community market'. In addition in this period the data show 303 acquisitions of minority holdings and 164 joint ventures, a total of 1,025 'operations'. Source: Eighteenth Report on Competition Policy, CEC, 1989.

Table A.1: Scale of UK Acquisitions 1954 - 1989

Year	No. of Acquisition	Amount paid £M	GDP £M	GDP Deflator '80=100%	FT Industrial 1/7/35=100
	(1)	(2)	(3)	(4)	(5)
1954	275	105	15,909	14.9	
1955	294	84	17,066	15.4	195.0
1956	246	131	18,462	16.3	180.6
1957	301	136	19,574	17.0	188.3
1958	341	120	20,428	17.8	181.9
1959	559	307	21,486	18.1	250.2
1960	736	338	22,864	18.4	318.6
1961	632	368	24,453	19.0	319.8
1962	636	358	25,535	19.6	285.5
1963	888	352	27,155	20.0	316.9
1964	940	505	29,468	20.6	346.9
1965	1,000	517	31,499	21.5	337.3
1966	807	500	33,383	22.3	331.9
1967	763	822	35,277	23.0	355.0
1968	946	1,946	38,037	23.7	463.3
1969	846	1,069	40,019	24.5	419.8
1970	793	1,122	43,974	26.4	361.0
1971	884	911	50,037	29.3	386.2
1972	1,212	2,532	55,939	32.8	503.8
1973	1,205	1,304	65,310	34.0	436.6
1974	504	508	75,841	40.8	251.2
1975	315	291	95,812	52.0	311.0
1976	353	448	113,799	59.4	368.0
1977	482	824	129,129	66.7	452.3
1978	567	1,140	148,668	74.6	479.4
1979	534	1,656	171,512	84.2	475.5
1980	469	1,475	199,757	100.0	464.5
1981	452	1,144	217,587	109.9	518.5
1982	463	2,206	237,547	117.8	574.7
1983	447	2,343	260,658	124.3	692.6
1984	568	5,473	278,457	131.3	854.9
1985	474	7,091	305,854	138.3	1004.6
1986	696	14,935	324,500	142.0	1287.1
1987	1,125	15,263	355,651	149.1	1600.0
1988	1,224	22,123	394,606	158.6	1448.7
1989P	1,039	26,104			

Sources: 1954-63 Economic Trends, 1964 onwards (1&2) Business Monitor MQ7. Industrial and Commercial Companies. Prior to 1969 data refer to acquisitions by quoted companies only.  
(3) Average estimate at factor cost. From 1979 income based estimate. Source: Economic Trends  
(4) At factor cost. Source: Economic Trends The GDP implied price index has been used to deflate expenditure on acquisitions  
(5) Source: Economic Trends

Table A.2: Number and Value of Assets Acquired in Large Mergers in Manufacturing and Mining U.S, 1950-76

Year	Number	Assets (\$m)	GNP (\$b)	GNP Deflator 1972=100	Share Price
	(1)	(2)	(3)	(4)	(5)
1950	5	186	284.8	54.3	
1951	9	202	328.4	57.9	
1952	15	385	345.5	59.2	
1953	26	795	364.6	59.7	
1954	38	1479	364.8	60.6	
1955	69	2231	398.0	61.5	
1956	59	2111	419.2	63.6	
1957	50	1428	441.1	65.9	
1958	45	1173	447.3	67.7	46.24
1959	62	1734	483.7	68.8	57.38
1960	64	1734	503.7	69.9	55.85
1961	60	2235	520.1	70.8	66.27
1962	80	2660	560.3	71.6	62.38
1963	82	3187	590.5	72.6	69.87
1964	91	2577	632.4	73.6	81.37
1965	91	3722	684.9	74.4	88.17
1966	104	4380	749.9	77.8	85.26
1967	174	8956	793.9	79.6	91.93
1968	225	13759	864.2	82.8	98.70
1969	175	12219	930.3	86.7	97.84
1970	109	6601	977.1	91.5	83.22
1971	87	3141	1060.2	96.2	98.29
1972	87	2671	1171.0	100.0	109.20
1973	83	3559	1326.0	105.8	107.43
1974	83	5119	1434.0	115.1	82.85
1975	72	5528	1549.0	125.8	85.17
1976	105	6590	1718.0	132.3	102.11

Sources: (1)&(2) Acquired firms with assets of \$1 million or more. FTC in Mergers in the US, Dennis C Mueller 1979.  
 (3) + (4) U.S. Historical Statistics, Statistical Abstract of the United States, Quarterly National Accounts, OECD, various issues.  
 (5) S&P 400 Original base 1941-43=10 Source Salomon Brothers.

Table A.3: Number & Expenditure on Acquisitions U.S, 1967-86

Year	Number	Expenditure (\$b)	GNP (\$b)	GNP Deflator 1972=100	Share Price
	(1)	(2)	(3)	(4)	(5)
1967	2,975	n.a	793.9	79.6	91.93
1968	4,462	n.a	864.2	82.8	98.70
1969	6,107	23.7	930.3	86.7	97.84
1970	5,152	16.4	977.1	91.5	83.22
1971	4,608	17.6	1060.2	96.2	98.29
1972	4,801	16.7	1171.0	100.0	109.20
1973	4,040	16.7	1326.0	105.8	107.43
1974	2,861	12.5	1434.0	115.1	82.85
1975	2,297	11.8	1549.0	125.8	85.17
1976	2,276	20.0	1718.0	132.3	102.11
1977	2,224	21.9	1918.0	140.1	98.18
1978	2,106	34.2	2164.0	150.5	96.11
1979	2,128	43.5	2418.0	163.4	107.94
1980	1,889	44.3	2633.0	178.6	118.71
1981	2,395	82.6	2938.0	195.5	128.05
1982	2,346	53.8	3069.0	207.4	119.71
1983	2,533	73.1	3305.0	215.3	160.41
1984	2,543	122.2	3663.0	223.4	160.50
1985	3,001	179.8	4010.0	230.0	186.84
1986	3,336	173.1	4235.0	236.3	236.36
1987	[2,000]	[180.0]	4526.0	244.1	287.00
1988	[2,500]	[247.0]	4864.0	252.4	265.88

Sources: (1)&(2) 1967 - 84, Report, Senate Committee on Banking, Housing and Urban Affairs, Sub Committee on Securities, April 3rd 1985. Original source is W.T.Grimm & Co. 1985-6 Statistical Abstract of the United States, 1988. 1987-8 PROT & DE ROSEN (1990) (3)-(5)As for Table A.2

Table A.4: Value and Number of Sales of Subsidiaries as a Percentage of all Acquisitions, UK, 1969-88

Year	TOTAL		Sales of Subsidiaries		Per cent	
	Number	£m	Number	£m	Number	£m
1969	846	1068.9	102	99.7	12.1	9.3
1970	793	1122.5	179	125.9	22.6	11.2
1971	884	911.1	264	165.5	29.9	18.2
1972	1,210	2531.6	272	185.4	22.5	7.3
1973	1,205	1304.3	254	246.8	21.1	18.9
1974	504	508.4	137	49.3	27.2	9.7
1975	314	200.8	115	69.8	36.6	34.8
1976	353	448.1	111	99.7	31.4	22.3
1977	481	823.8	109	93.5	22.7	11.4
1978	567	1139.5	126	162.9	22.2	14.3
1979	534	1656.4	117	186.1	21.9	11.2
1980	469	1475.4	101	210.5	21.5	14.3
1981	452	1143.7	125	261.8	27.7	22.9
1982	463	2205.5	164	803.8	35.4	36.6
1983	447	2342.9	142	435.6	31.8	18.6
1984	568	5473.8	170	1121.0	29.9	20.5
1985	474	7090.4	134	792.5	28.3	11.2
1986	696	14934.7	159	2809.6	22.8	18.8
1987	1,125	15362.9	220	4085.9	19.6	26.6
1988	1,224	22122.6	287	5253.2	23.5	23.8
1989	1,039	26,104	321	5150.8	31.0	19.

Source: Business Monitor MQ7

Table A.5: Number of Contested and Agreed Bids for UK Quoted Companies 1984-88

Year	Contested	Per Cent	Agreed	Per Cent	Total	Per cent
1984	23	29.1	56	70.8	79	100.0
1985	51	41.5	72	58.5	123	100.0
1986	73	34.3	140	65.7	213	100.0
1987	38	21.8	136	78.1	174	100.0
1988	86	42.2	118	57.8	204	100.0

Sources: Acquisitions Monthly and Annual Reports of the Takeover Panel.



Table A.6: Number and Expenditure on UK Industrial and Commercial Companies acquired by Overseas Companies and on Foreign Companies Acquired by UK Companies, 1969-1988.

Year	UK Companies Acquired by Overseas Companies			Foreign Companies Acquired by UK Companies		
	Number	Value £m	Value as a Per cent of UK Total	Number	Value £m	Value as Per Cent of UK Total
	(1)	(2)	(3)	(4)	(5)	(6)
1969	27	58.2	5.1	43	29.2	2.5
1970	23	57.2	2.4	52	105.7	4.6
1971	21	32.7	3.5	62	73.0	7.7
1972	18	41.4	1.6	85	90.4	3.5
1973	8	58.0	4.5	88	178.5	13.1
1974	9	184.9	26.8	53	120.6	17.4
1975	9	53.5	15.5	18	41.3	11.9
1976	10	72.8	14.0	17	64.6	12.4
1977	12	79.5	8.8	18	142.8	15.8
1978	13	38.6	3.3	30	349.5	29.6
1979	6	47.1	2.8	63	344.8	20.2
1980	23	169.7	5.1	51	941.0	56.3
1981	75	493.4	30.1	150	726.2	44.4
1982	29	229.6	9.4	95	770.3	31.6
1983	20	187.5	7.4	58	387.1	15.3
1984	28	512.2	8.6	74	816.4	13.6
1985	21	223.6	3.1	64	931.5	12.7
1986	27	584.0	3.8	212	4735.0	31.0
1987	42	1161.0	7.1	282	5972.0	36.4
1988	76	2484.0	10.1	444	5547.0	23.0

Source: Business Monitor MQ7  
 (3)=(2) as per cent of total expenditure on acquisitions by UK companies from Table A.1 plus (2)  
 (6)=(5) as a percentage of (2) plus total expenditure on acquisition by UK companies from Table A.1.  
 Note that the numbers of Foreign Companies acquired by UK Companies and expenditure were substantially under-recorded prior to 1986.

Table A.7: Percentage of Total Expenditure on Acquisitions Accounted for by Cash and Issues of Securities, UK 1969-88

Year	Cash	Issue of Ordinary Shares	Issues of Fixed Interest Securities	Total
1969	27.7	51.6	20.7	100.0
1970	22.4	53.1	24.5	100.0
1971	31.3	48.0	20.7	100.0
1972	19.5	57.6	22.9	100.0
1973	53.0	35.7	11.3	100.0
1974	68.3	22.4	9.3	100.0
1975	59.4	32.0	8.6	100.0
1976	71.7	26.8	1.5	100.0
1977	62.1	36.9	1.0	100.0
1978	57.4	40.6	2.0	100.0
1979	56.3	31.1	12.6	100.0
1980	51.5	45.4	3.1	100.0
1981	67.7	29.6	2.7	100.0
1982	58.1	31.8	10.1	100.0
1983	43.8	53.8	2.4	100.0
1984	53.8	33.6	12.6	100.0
1985	40.3	52.3	7.4	100.0
1986	25.6	57.9	16.5	100.0
1987	32.2	62.3	5.5	100.0
1988	69.7	21.9	8.4	100.0
1989P	82.4	12.7	4.9	100.0

Source: Business Monitor MQ7

Table A.8: Percentage of Proposed Mergers by Number of and Value of Assets of Target Companies by Type of Integration, UK 1975-87

Period	Total Number	Horizontal		Vertical		Diversifying	
		Number	Assets	Number	Assets	Number	Assets
1975	160	71	77	5	4	24	19
1976	163	70	66	8	7	22	27
1977	194	64	57	11	11	25	32
1978	229	53	67	13	10	34	23
1979	257	51	68	7	4	42	28
1980	182	65	86	4	1	31	31
1981	164	62	71	6	2	32	27
1982	190	65	64	5	4	30	32
1983	192	71	73	4	1	25	26
1984	259	63	79	4	1	33	20
1985	192	58	42	4	4	38	54
1986	313	69	74	2	1	29	25
1987	321	67	80	3	1	30	19

Notes: See Appendix for dates of changes in assets criteria

Source: Annual Reports of the Office of Fair Trading.

Table A.9: Uses of Capital Funds on Internal and External Investment UK 1960-88

Year	GDFC	OIO	Total	Value of UK Acquisitions	DIOS	Total	All Investment	Per cent external
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1960	1,732	279	2,011	338	55	393	2,404	16.3%
1961	1,982	259	2,241	368	179	547	2,788	19.6%
1962	1,991	217	2,208	358	60	418	2,626	15.9%
1963	1,908	253	2,161	352	49	401	2,562	15.7%
1964	2,288	311	2,599	505	61	566	3,165	17.9%
1965	2,394	402	2,796	517	64	581	3,377	17.2%
1966	2,376	326	2,702	500	34	534	3,236	16.5%
1967	2,335	343	2,678	822	63	885	3,563	24.8%
1968	2,653	385	3,038	1,946	103	2,049	5,087	40.3%
1969	2,908	485	3,393	1,069	119	1,188	4,581	25.9%
1970	3,296	441	3,737	1,122	181	1,303	5,040	25.9%
1971	3,395	565	3,960	911	162	1,073	5,033	21.3%
1972	3,763	394	4,157	2,532	178	2,710	6,867	39.5%
1973	4,783	1,269	6,052	1,304	427	1,731	7,783	22.2%
1974	5,797	1,266	7,063	508	295	803	7,866	10.2%
1975	6,780	876	7,656	291	257	548	8,204	6.7%
1976	8,019	1,569	9,588	448	437	885	10,473	8.5%
1977	9,753	1,510	11,263	824	416	1,240	12,503	9.9%
1978	12,051	970	13,021	1,140	939	2,079	15,100	13.8%
1979	14,038	2,749	16,787	1,656	843	2,499	19,286	13.0%
1980	14,893	1,317	16,210	1,475	1,795	3,270	19,480	16.8%
1981	14,716	1,831	16,547	1,144	2,186	3,330	19,877	16.8%
1982	15,292	1,826	17,118	2,206	1,113	3,319	20,437	16.2%
1983	15,890	1,900	17,790	2,343	1,751	4,094	21,884	18.7%
1984	19,614	1,725	21,339	5,473	1,276	6,749	28,088	24.0%
1985	24,876	1,827	26,703	7,091	3,436	10,527	37,230	28.3%
1986	26,682	794	27,476	14,935	4,673	19,608	47,084	41.6%
1987	32,285	5,931	38,216	15,263	10,049	25,312	63,528	39.8%
1988	40,308	3,372	43,680	22,123	6,890	29,013	72,693	39.9%

Source

- (1)-(2) and (5) Financial Statistics (4) Business Monitor MQ7  
 (1) Gross Domestic Fixed Capital Formation, (2) Other Investment Overseas,  
 (5) Direct Investment in Overseas Securities, (8) (6) as Per cent of (3) + (6).

Table A.10: Companies Listed on the ISE, Cancellations and New Flotations on Listed and Unlisted Markets, 1965-88

Year	Number of Listed Cos		Cancellations				New Flotations			
			Following Acquisitions	At request	Other	Total	Official List	USM	3rd Market	Total
	(1)	(1a)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1965	4366		14		26	40				
1966	3852		25		19	44				
1967	3764		11		16	27				
1968	3673		9		18	27				
1969	3546		12	18	16	46				
1970	3418		15	11	36	62	95			
1971	3307		4	22	11	37	117			
1972	3132	387	15	8	27	50	205			
1973	3585	397	7	12	19	38	102			
1974	3343	398	4	21	19	44	14			
1975	3230	383	9	27	20	56	19			
1976	3093	378	1	48	17	66*	18			
1977	2992	376	7	29	35	71	24			
1978	2930	374	2	30	4	36	35			
1979	2814	376	-	38	1	39	49			
1980	2747	394	66	33	5	104	35	23		
1981	2435	396	71	16	-	87	63	66		
1982	2357	407	75	35	55	165	59	63		
1983	2295	437	80	30	11	121	79	88		
1984	2248	505	66	20	26	112	87	100		
1985	2188	500	97	8	7	112	80	97		
1986	2173	512	98	29	-	127	136	93		
1987	2135	523	152	14	62	228	155	75	32	262
1988	2054	526	159	37	61	257	129	100	23	252

Source

Quality of Market Fact Sheets, ISE. \* 9 Months

(1) Prior to 1973 excludes companies listed only on the Birmingham, Liverpool and Irish stock exchange. Excludes overseas (other than Irish companies throughout: the number of these is given in Col. 1a for 1972 onwards, these data are not readily available for earlier years. Cols (1)-(5) relate to financial year ends from 1973  
(6) UK Cos only.

Table A.11: The Scale of Merger Activity in Japan

Year	Number	Value (¥M)	GNP	GDP Deflator 1980=100	Tokyo All Share
	(1)	(2)	(3)	(4)	(5)
1947	23				
1948	309				
1949	571				
1950	420				
1951	331				
1952	385				
1953	344				
1954	325				
1955	338				
1956	381				
1957	398				
1958	381				51.70
1959	413				75.49
1960	440				97.35
1961	591				112.10
1962	715				98.59
1963	997				108.20
1964	864				98.56
1965	894				91.68
1966	871				109.88
1967	995				110.48
1968	1,020				119.01
1969	1,163				151.11
1970	1,147	473,329			163.35
1971	1,178	3,447,636			180.04
1972	1,184	477,915		53.6	282.38
1973	1,028	2,306,798	112,520	60.5	362.50
1974	995	n.a	133,997	73.1	307.31
1975	957	n.a	148,170	76.7	312.06
1976	941	802,480	166,417	84.4	347.51
1977	1,011	1,317,090	185,530	89.3	376.78
1978	898	710,838	204,475	93.6	415.41
1979	871	1,153,246	221,825	96.4	449.88
1980	961	1,516,655	240,098	100.1	474.00
1981	1,044	1,960,272	256,817	103.3	552.29
1982	1,041	2,884,694	269,697	105.2	548.28
1983	1,020	1,676,601	280,568	106.0	647.41
1984	1,096	1,918,366	298,453	107.4	815.47
1985	1,113	3,120,907	317,441	109.1	997.72
1986	1,147	4,366,620	331,253	111.7	1324.26
1987	1,215	3,198,762	345,292	110.4	1963.29
1988	1,336	3,349,918	366,366	111.0	2134.24

Sources

- (1) & (2) Federal Trade Commission  
(3) & (4) GNP at market Prices, Quarterly National Accounts  
OECD various issues  
(5) International Affairs Division, Tokyo Stock Exchange

Table A.12: Number of Mergers in the Federal Republic of Germany, Canada and France, various years, 1977-88

Year	FRG	Canada	France		Average value
	Number	Number	Value F Billions	F Billions	
	(1)	(2)	(3)	(4)	(5)
1977	554	395			
1978	568	449			
1979	602	511			
1980	635	414			
1981	618	491			
1982	603	576			
1983	506	628			
1984	575	641	199	n.a	n.a
1985	709	712	264	31.70	0.12
1986	802	938	284	61.80	0.22
1987	887	1,082	915	165.80	0.18
1988	1,159	n.a	1,053	306.90	0.29

Sources: (1) BKA 1988 From PROT & DE ROSEN (1990)  
 (2) OECD op.cit 1984  
 (3)-(5) PF Publications in PROT & DE ROSEN (1990)

Table A.13 Numbers and value of Acquisitions in selected countries and their relation to GDP 1988

	U.K	France	FRG	U.S	Japan	Canada
Number	1,300	666	876	(2,500)	1,336	1,082
Value	£24,607m	F10,84b	n.a	(\$247b)	¥3,350b	n.a
Exchange Rate £	1.0	10.6	3.124	1.7796	227.98	2.1898
Value £b	24.6	10.2	n.a	138.8	14.7	n.a
Unit value £m	18.9	15.4	n.a	55.5	11.0	n.a
GDP at Market Prices	462.6	F5,658.6	DM2,110.6	\$4817.8	¥364,385	C\$596.4
GDP £b	454.1	533.8	675.6	2,706.8	1,598.3	273.4
Value of Acquisitions as a percentage of GDP	5.3	1.9	n.a	5.1	0.9	n.a
No of Acquisitions per £b of GDP	2.9	1.2	1.3	0.9	0.8	4.0

Sources: GDP, Quarterly National Accounts, 1960-88 OECD Vol.1. GDP at market prices.  
 Exchange rates Financial Statistics  
 Number and Value of acquisitions: (1) Table A.1 plus acquisitions of UK companies in the UK by foreign companies from Table A.6 (2) Total of domestic transactions minus minority stakes in listed companies from FRANKS & MAYER 1990. (3) Table A.12 minus joint ventures. (4) Table A.3 (5) Table A.11 (6) Table A.12.  
 Inward foreign acquisitions are included in all six countries except possibly Japan where coverage of the data are not clear. Outward foreign acquisitions are included in FRG, but not in the other countries. Partial acquisitions are included in FRG and the US.

Table A.14 Expenditure on Acquisitions in Manufacturing, UK 1890-1973

Year	Expenditure (£m)	National Income (£m)	Percent	Total %
1890				
1891				
1892				
1893				
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Table A.14 cont...

Table A.14(Cont) Expenditure on Acquisitions in Manufacturing, UK 1890-1973

Year	Expenditure (£m)	National Income (£m)	Percent	Total %
1960	313.0	21049	1.5	1.5
1961	479.0	22259	2.2	1.5
1962	302.0	23322	1.3	1.4
1963	290.0	24876	1.2	1.3
1964	432.0	26961	1.6	1.7
1965	440.0	28924	1.5	1.6
1966	443.0	30952	1.4	1.5
1967	756.0	32276	2.3	2.3
1968	1666.0	34687	4.8	5.1
1969	716.0	36493	2.0	2.7
1970	668.0	40011	1.7	2.6
1971	372.0	45342	0.8	1.8
1972	1292.0	50461	2.6	4.5
1973	458.0	59233	0.8	2.0

Sources:

- (1) Value of firm disappearances from HANNAH 1976. Mid points have been taken where he gives a range. Inexplicably, Hannah's figure for 1961 is larger than ours which includes non-manufacturing.  
 (2) 1966-73 Net National Product at factor cost from United Kingdom National Accounts, HMSO 1986; 1960-65, The British Economy, Key Statistics 1900-1970, London and Cambridge Economic Service; 1890-1959, British Economic Growth, 1688-1959, Phyllis Deane and WA Cole, CUP, 1969.  
 (4) Table A1. Note these calculations are based on GDP.

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