The Daily Dish

Fuzzy M&A Thinking

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Eakinomics: Fuzzy M&A Thinking

AAF's Will Rinehart has a new piece entitled "The Government Should Not Ban Mergers and Buyouts." I point this out not simply because I am proud of the work of AAF's experts, but because it raises the important question: Why on earth would anyone feel compelled to write a paper on this topic?

The answer, unsurprisingly, is that it is a response to the infinite creativity of your elected representatives — in this case, Senator Amy Klobuchar, who "has introduced a bill that would effectively ban any company with a market capitalization over $100 billion from engaging in mergers. By limiting any new expansion of the largest companies, the reasoning goes, smaller companies would be forced to step into the fray and become competitive instead of banking on a buyout by larger firms."

Uh, right. Let's begin with some more conventional economic analysis. Firms can grow in one of two ways: purchase capital and expand operations or acquire existing assets and operations. The latter, mergers and acquisitions (M&A), are an utterly non-controversial tool by which firms reach their desired scale and scope. As Rinehart points out, M&A is just as important an option for the firm being acquired as for the acquiring firm. In his example, Snap (owners of Snapchat) pursued the strategy of internal growth. To acquire the funds, it went public and struggled in the publicly traded environment. In contrast, Instagram was acquired by Facebook and got access to Facebook's internal capital and expertise.

Legislation barring the M&A option would be detrimental to both sides of the equation and harmful economically. Despite the ostensible focus on the tech industry, the implications would be widespread: "It would include: Apple, Amazon, Alphabet, Microsoft, Facebook, Berkshire Hathaway, JPMorgan Chase, Johnson & Johnson, Bank of America, Visa, Wells Fargo, Intel, Chevron, Walmart, Nestle, UnitedHealth Group, Cisco Systems, Home Depot, Pfizer, Mastercard, Verizon Communications, Boeing, AT&T, Oracle, Citigroup, Procter & Gamble, Coca-Cola, AbbVie, Merck & Co., DowDuPont, NVIDIA, Walt Disney, Comcast, Netflix, PepsiCo, IBM, McDonald's, General Electric, Philip Morris International, 3M, Adobe Systems, Medtronic, Amgen, Nike, Honeywell International, Union Pacific, Abbott Laboratories, Texas Instruments, Altria Group, Accenture, and Broadcom." The economic damage would be tremendous.

And it would not solve any real problem. To see this, ignore the tech sector and think aboutbeer. Obviously, there are a handful of very large brewers in the United States, and some have received considerable negative press because of their acquisition of smaller, so-called craft breweries. Where is the problem, though? Those craft brewers got access to the large companies' distribution networks and other marketing assets. And the sector remains healthy. According to the Brewers Association, the number of breweries across the country is currently at a 144 year high. New microbrewery openings have increased steadily for the last eight years, and these businesses experienced only about a 9% closing rate over the same span of time. Despite publicized concerns about acquisitions, the sector appears toremain innovative, vibrant, and competitive enough to continue attracting new entrants.

Applying the same logic to the tech sector helps to demonstrate that fuzzy thinking aboutcompetition is not producing good policy ideas. Just say No Mas to No M&As.