pany agrees to pay "greenmail" to the raider—buying back its shares at a premium—the raider will agree to stop the takeover campaign. If the takeover succeeds, the speculator may cannibalize the company's assets or cut back on research and development to service the huge debt on his "junk" bonds.

Takeover bids—or fear of them—led to the mergers of Chevron and Gulf, Occidental and Cities Service, Mobil and Superior. In each case, the companies' profits have plummeted.

In the effort to repel takeover bids, some companies (including FMC, Colt Industries, Owens-Corning Fiberglas, and Gillette) have increased the price of their stocks to make themselves less desirable. Earlier raids and the resultant expense of "greenmail" undermined these companies by reducing their equity and increasing their amount of debt.

Market rules should be tightened, Rohatyn says, to curb speculative abuse. "If America is to compete with Japan," he argues, "we must invest in and create new products, instead of tearing apart our industries and simply inventing new kinds of paper."

No De-Industrialization

"U.S. Manufacturing: Any Cause for Alarm?" by Molly McUsic, in *New England Economic Review* (Jan.-Feb. 1987), Federal Reserve Bank of Boston, 600 Atlantic Ave., Boston, Mass. 02106.

Is America "de-industrializing?"

No, says McUsic, a former senior research assistant at the Federal Reserve Bank of Boston. "The fears of a rising service economy, with barber shops and laundromats replacing steel mills and auto plants, are greatly exaggerated."

Since 1960, manufacturing's share of U.S. nonagricultural employment has dropped from 28 to 21 percent. McUsic attributes this to two causes:

U.S. manufacturers have become more efficient, increasing factory productivity an average of 2.2 percent a year since 1973. Since the last recession in 1980–82, the nation's "overall level of manufacturing productivity [has remained] the highest in the world."

Many factory jobs once considered goods-producing have now become "services." A security guard on the payroll of a textile company is counted as part of the manufacturing sector. If the same guard were working for a firm under contract to the textile company, he would then be providing a "service," and manufacturing employment statistics would drop. If one-third of the 3,741,000 jobs created by the "business services" sector from 1960 to 1984 were filled by factory employees, McUsic says, "there would have been no drop in 'manufacturing employment.'"

Moreover, America is still more efficient than other industrialized nations. Manufacturing output per hour of work increased 5.8 percent in the United States between 1982 and 1984, compared with 4.6 percent in France and 4.4 percent in Italy. McUsic calculates that American manufacturing is 14 percent more productive than Canada's and 41 percent more productive than Britain's.

All well-to-do industrialized nations increase services, which "tend to grow along with an expanding stock of goods." Third World manufacturing growth (e.g., in Korea, Brazil, Taiwan) does not necessarily mean Americans will be worse off. America's share of world manufacturing output has declined since World War II, yet the American gross domestic product per capita in the 1980s has increased 30 percent faster than Britain's and 23 percent faster than Japan's.

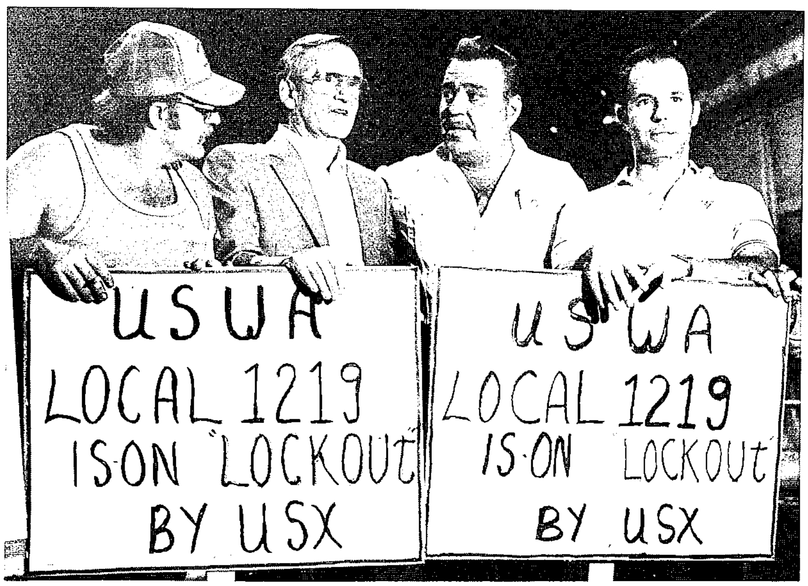
Not all U.S. industries are flourishing, McUsic concedes, but the data does not reveal "evidence of profound economic ills."

Labor Truce

"Labor-management scene in 1986 reflects continuing difficulties" by George Ruben, in *Monthly Labor Review* (Jan. 1987), U.S. Dept. of Labor, Bureau of Labor Statistics, Washington, D.C. 20212.

With American steel, automobile, and farm machinery manufacturers in trouble, unions and management have declared a temporary truce. Both, reports Ruben, a Bureau of Labor Statistics project director, are joining to cut costs to keep American industry competitive.

During the relatively prosperous period from 1946 to 1980, American unions won concessions with 200 to 400 major walkouts a year. In 1985—threatened with plant closures and layoffs—workers went out on only 52 major strikes (a record low), and in the first 10 months of 1986, only 65.



After a six-month dispute with USX, Braddock, Pa., steelworkers returned to work last February. They accepted pay cuts but gained job security.