

In Defense of Financial Markets

By: Yaron Brook

I. Introduction

II. The Attack on Financial Markets

- A. Financiers in Contemporary Art & Culture
- B. Financiers in History

III. The Importance of Financial Markets

- A. The Productive Role of Businessmen & Capitalists
- B. The Economic, Productive Role of Financial Markets and Institutions (FM&I)
- C. The Importance of FM&I

IV. The Causes for the Attack on Financial Markets

- A. Ignorance & Envy
- B. Philosophical Roots
- C. The Goal of the Attack
- D. The Ramifications of the Attack

V. The Stock Market

- A. What are Stocks?
- B. The Productive Role of the Stock Market
- C. The Economic Role of Speculators
- D. The Short-Term vs. the Long-Term in the Stock Market
- E. The Stock Market & Objectivity

VI. Financial Markets & Corporate Restructuring

- A. Corporate Restructuring in the 1980s
- B. The Separation of Ownership and Control.
- C. Mechanisms that control corporate managers
- D. Hostile Takeovers
- E. The Takeover Artists
- F. Financing Hostile Takeovers
- G. The Battle to Destroy the Takeover Market
- H. Facts vs. Fiction in Corporate Restructuring
- I. The Ramifications of the Decline in Corporate Takeovers

VII. How Should we Defend Financial Markets?

- A. Harmful Defenses of FM&I
- B. An Economic Defense Alone is Doomed to Fail
- C. A Philosophical Defense of FM&I

Recommended Reading:

Fischel, Daniel, *Payback – The Conspiracy to Destroy Michael Milken and His Financial Revolution*, HarperBusiness, 1995.

Jensen Michael, "Corporate Control and the Politics of Finance," *Journal of Applied Corporate Finance*.

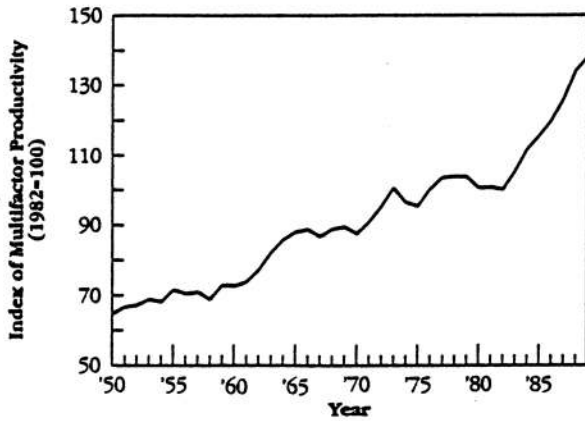
Salsman, Richard M., *The Collapse of Deposit Insurance – And the Case for Abolition*, American Institute for Economic Research, 1993.

Salsman, Richard M., "Wall Street Under Siege," *The Intellectual Activist*.

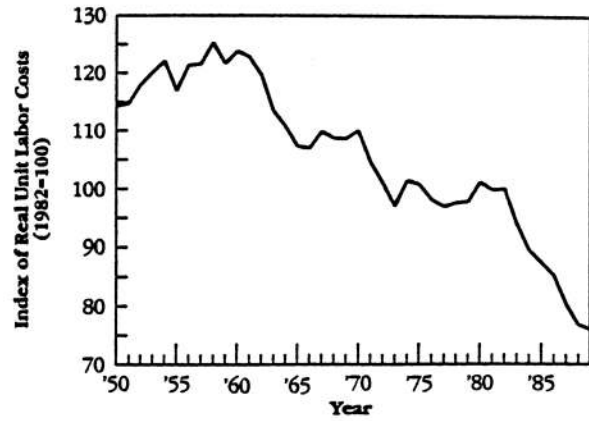
Sobel, Robert, *Dangerous Dreamers – The Financial Innovators from Charles Merrill to Michael Milken*, John Wiley & Sons, Inc., 1993.

FIGURE 1
TRENDS IN MANUFACTURING, 1950-1989:
PRODUCTIVITY, UNIT LABOR COSTS, EMPLOYMENT, COMPENSATION, AND CAPITAL

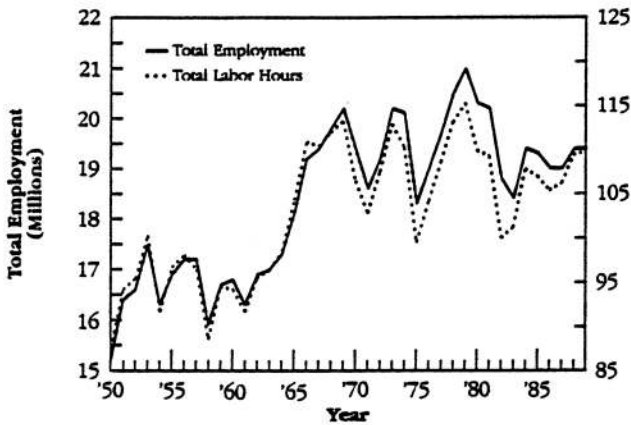
A. MULTIFACTOR PRODUCTIVITY*



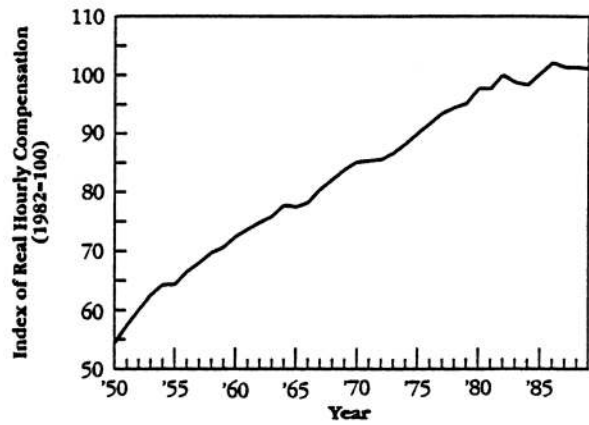
B. UNIT LABOR COSTS



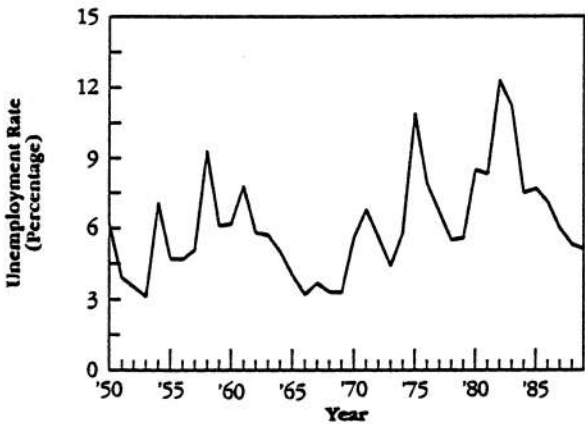
C. TOTAL NUMBER OF EMPLOYEES AND TOTAL LABOR HOURS



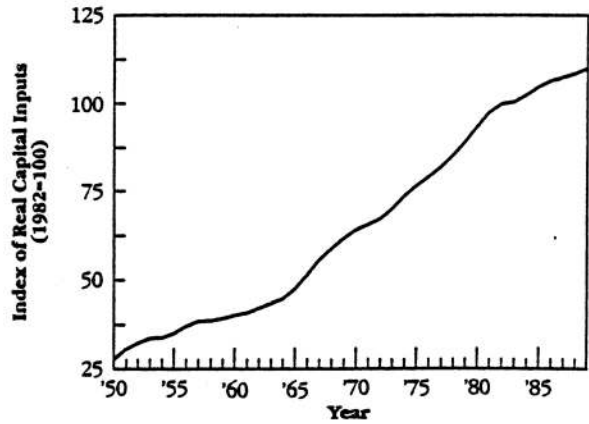
D. HOURLY COMPENSATION**



E. UNEMPLOYMENT RATE



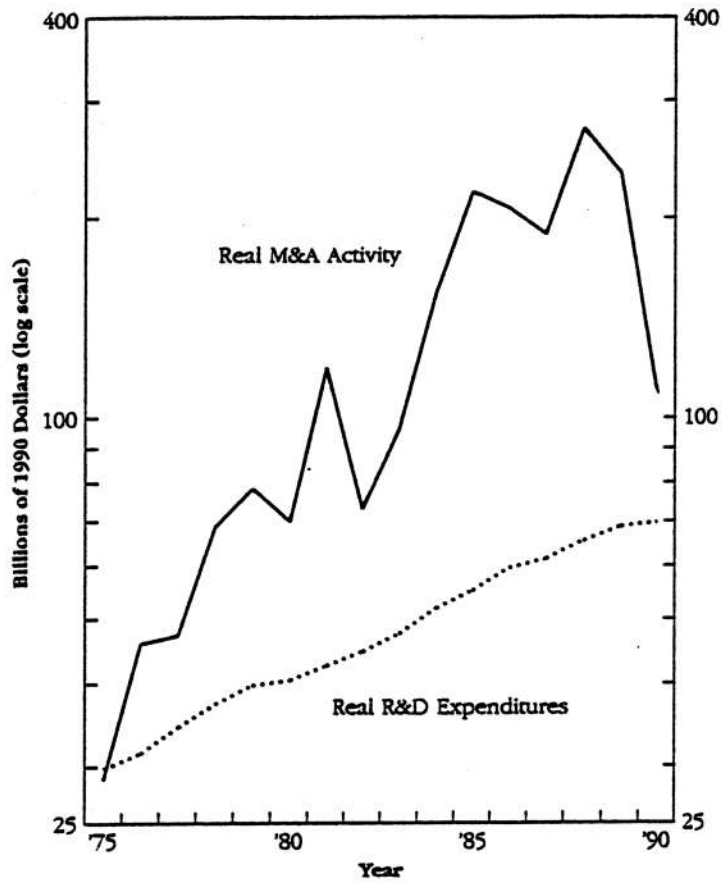
F. CAPITAL INPUTS



Sources: **Panels A and F**—Bureau of Labor Statistics, "Multifactor Productivity, 1988 and 1989," Table 3. **Panels B and D**—Bureau of Labor Statistics, "International Comparisons of Manufacturing Productivity and Labor Cost Trends, 1989," (July 1990) USDL #90-383, Table 2. **Panel C**—Bureau of Labor Statistics, "Employment and Earnings," supplement obtained from Office of Employment and Unemployment; Bureau of Labor Statistics, "International Comparisons of Manufacturing Productivity and Labor Cost Trends, 1989" (July 1990) USDL #90-383,

Table 2. **Panel E**—Bureau of Labor Statistics, "Labor Force Statistics Derived from the Population Survey, 1948-1987," (August 1988) Bulletin 2307, Table A-35; Bureau of Labor Statistics, "Employment and Earnings, January 1990," Table 11. *Multifactor Productivity is real output per unit of combined capital and labor. **Hourly Compensation includes wages and salaries, supplements, employer payments for social security, and other employer-financed benefit plans.

FIGURE 2
M&A ACTIVITY VS. INDUSTRY R&D EXPENDITURES
(1975-1990)

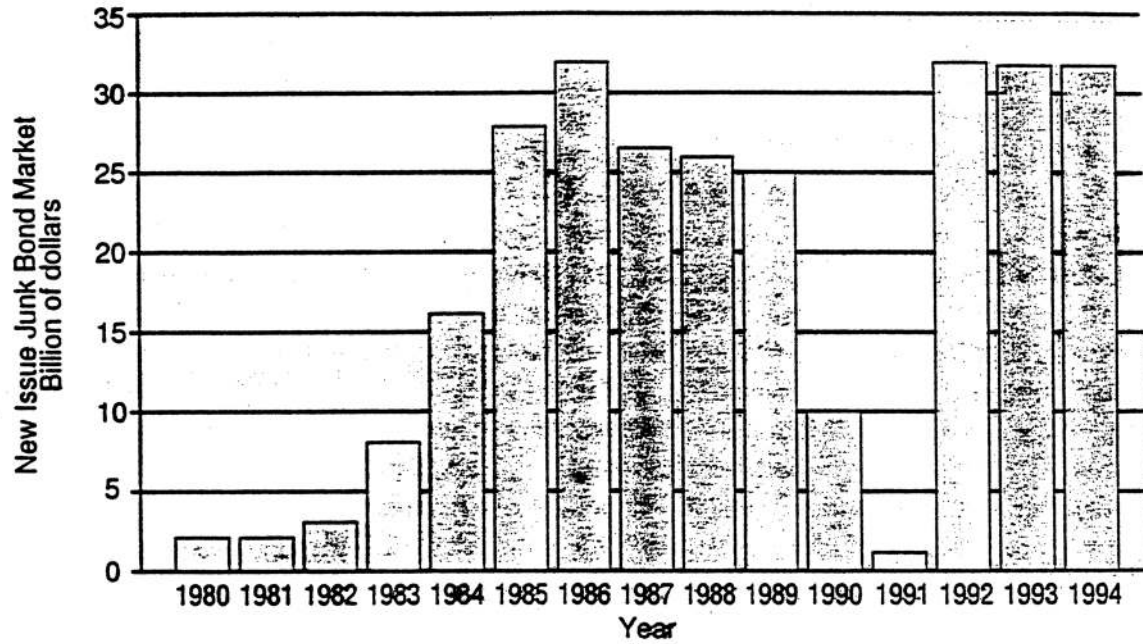


Source: *Business Week*, "R&D Scoreboard," annual; and Merrill Lynch, *Mergerstat Review*, 1990.
FIGURE 2

Source for Figure 1 and 2: Jensen Michael, "Corporate Control and the Politics of Finance," *Journal of Applied Corporate Finance*, Summer 1991, Vol. 4 Num. 2.

◆ *Figure 3* ◆

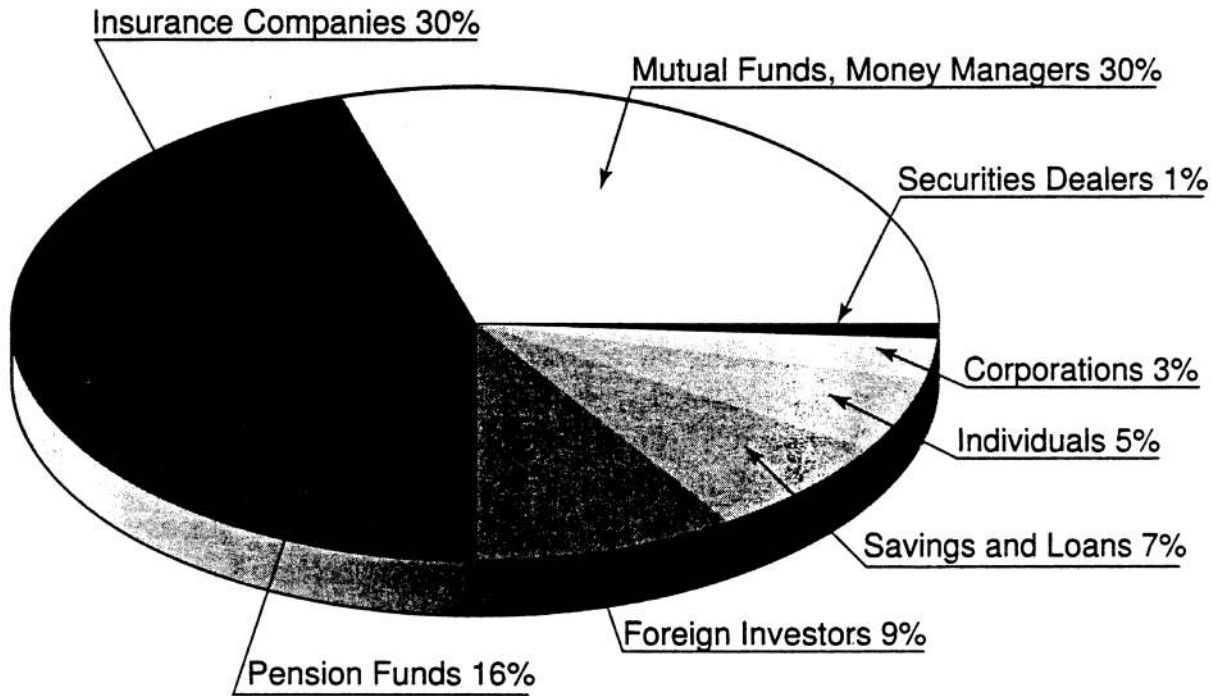
NEW-ISSUE JUNK BOND MARKET, 1980-1994



SOURCE: Securities Data Co. (1993).

◆ Figure 4 ◆

OWNERSHIP OF JUNK BONDS, 1988



SOURCE: Drexel Burnham Lambert, *Financing America's Future* (1989).

♦ Table 1 ♦

DOLLAR AMOUNTS OF GOING-PRIVATE LBOs, 1980-1994			
YEAR	TOTAL LBOs	TOTAL VALUE	\$100 MILLION+
1980	13	\$ 967 Million	3
1981	17	2,338	4
1982	31	2,864	11
1983	36	7,145	14
1984	57	10,306	26
1985	76	24,140	28
1986	76	20,232	29
1987	47	22,057	26
1988	125	60,920	57
1989	80	18,490	21
1990	20	3,505	6
1991	9	342	2
1992	8	897	4
1993	8	384	2
1994	3	99	0

SOURCE: Adapted from *Mergerstat Review* (1995).