*Hobart Rowen*

# Ramsden ITT Report: An Unconvincing Case

ONE OF THE KEY elements in the celebrated ITT case is that former Assistant Attorney General Richard McLaren was persuaded — in large part—to abandon his effort to force the company to divest itself of the giant Hartford Insurance Co. by a report from an outside consultant named Richard Ramsden.

It is not the point of this column that Ramsden was produced by White House aide Peter Flanigan, who actually delivered Ramsden's report to McLaren in the presence of then Deputy Attorney General Richard Kleindienst. The propriety of all this, and the easy access that ITT had to government at all levels has been adequately discussed and properly criticized.

But a pertinent question which has not been raised is how McLaren could have been convinced by the Ramsden report, a dime-a-dozen type of financial analysis familiar to Wall Street. Says one of the most shrewd underwriters in New York: "The Ramsden Report is hardly better than a high school term paper."

The Ramsden Report was simply one man's guess of what would happen to ITT stock and ITT stockholders if the government forced it to sell Hartford. Ironically, Ramsden predicted that the per-share price would drop from $64.50 to about $54 in such a case—which is exactly the level to which the stock did drop—with Hartford still part of the company—because of the bad publicity incurred during the hearings on the whole dubious affair.

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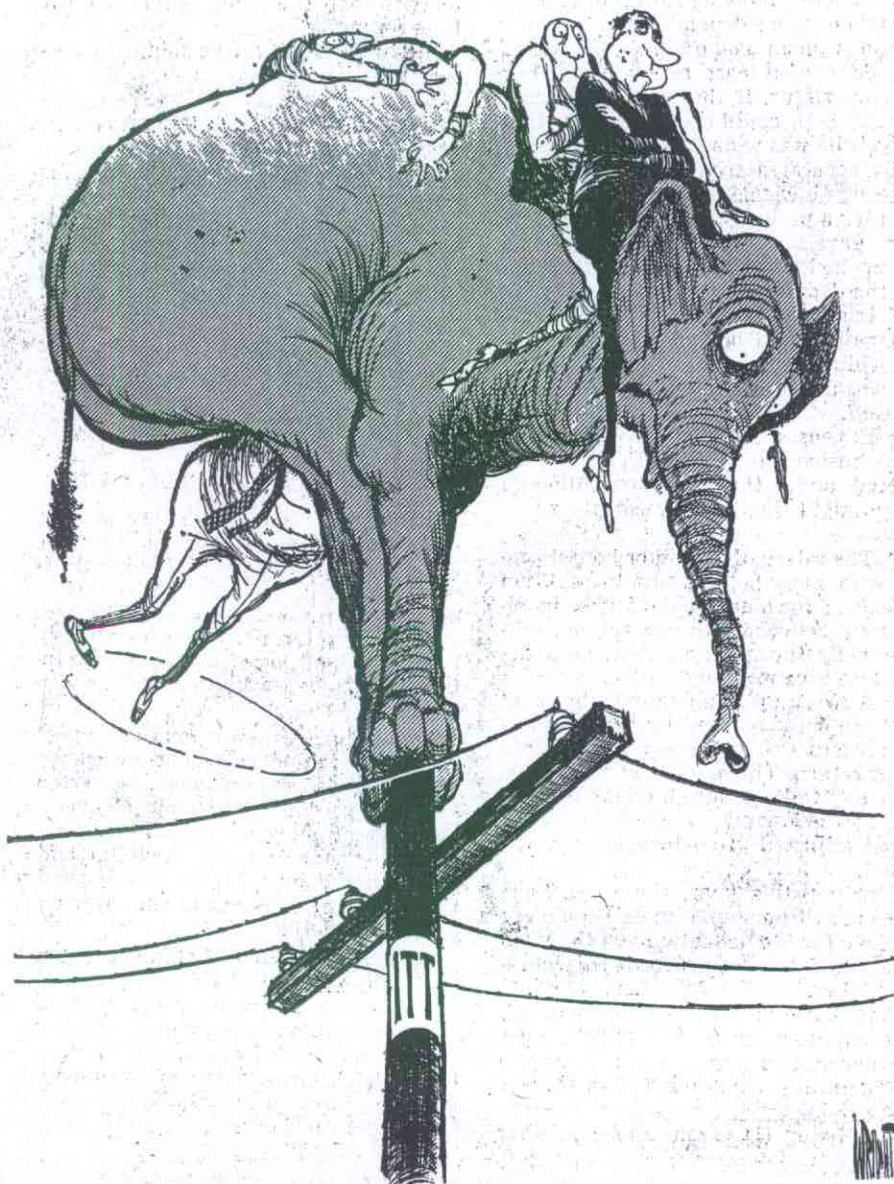


*'Act nonchalant and maybe nobody will notice us.'*

Wharton School of Finance, and a distinguished expert on the stock market (whom Ramsden testified he had never heard of) has observed correctly that stockholders in ITT—like any stockholders — take a normal business risk when investing. But even more important, ITT stockholders knew (or should have known) that the company was supposed to keep the Hartford business separate from the rest of the conglomerate pending a decision in the courts.

McLaren appears to have been impressed by Ramsden's observation that ITT had paid a "premium" of $500 for the Hartford stock which would be a loss if it was forced to sell. But this is a mere book-keeping device. In fact, ITT earlier fought a lower court injunction to delay the merger on the theory that Hartford stockholders would be deprived of that $500 "premium."

But the real thrust of Ramsden's analysis was that ITT had to keep its record pace of acquisitions rolling in order to maintain "investor confidence." Ramsden quoted (but didn't identify) another analyst who had stated that "the key ponit to understanding ITT is the international diversification, the business mix between manufacturing and services, and the superior management team that blend to create highly predictable earnings increases of 11-12 per cent annually."

This is nothing more than praise for the conglomerate technique which in ten years had made ITT the nation's ninth largest industrial company. As an argument against divestiture it is a mere irrelevancy.

## *Economic Impact*

RAMSDEN ALSO made some pathetically thin and badly-informed claims that a divestiture would have a "negative effect" on ITT's "contributions" to the U.S. balance of payments position. This is at best conjecture, and at worst, pure hokum. Yet it played a role in the McLaren decision.

For example, Ramsden said that foreign investors might sell their ITT stock if it became a less attractive investment, thus affecting the balance of payments. The implication was that foreigners would sell ITT and take their funds out of the country. But logic indicates that if foreigners sold their ITT stock, they would transfer the funds to some other U.S. shares that looked more sound. So the balance of payments argument is largely baloney.

Altogether, it strains credulity to think that there was enough new, significant, or compelling in the Ramsden report to have changed McLaren's mind on the plan to compel ITT to get rid of Hartford.

Nevertheless, one month after the Ramsden report, McLaren sent a memo to Kleindienst in which he said that "a study by financial experts" (presumably Ramsden) confirmed ITT's claims that a divestiture order would "cripple" it financially and "seriously injure" its stockholders.

"Such being the case," McLaren added, "I gather that we must also anticipate that the impact on ITT would have a ripple effect—in the stock market and in the economy."

BUT NOT EVEN Ramsden suggested anything so fanciful as an impact on the market as a whole or on the economy.

In testimony on April 17, Ramsden, who admitted he had consulted no real balance of payments experts in making his report, told Sen. John V. Tunney (D-Cal.): "I would question very severely whether there would be any significant ripple effect."

Mr. McLaren, it seems clear, made a bad judgment when he concluded that "the risks of adverse effects on the stock market and the economy" forced him to abandon his anti-trust case and allow ITT to keep Hartford insurance. Just how he arrived at his judgment is something he has yet to explain.

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**RICHARD McLARNEN**

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