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History, numbers, and some theory

An Open Source Update of the Buy-to-Build Indicator

The tendency toward buying other companies more than building new productive capacity continues in the United States

In a past life I had access to expensive databases of corporate statistics, which I used to calculate the buy-to-build indicator for the United States from the 1880s until 2012. In short, the buy-to-build indicator shows how much corporations are spending on buying other corporations (that is, on mergers and acquisitions) relative to how much they are spending on new productive capacity (fixed capital formation). It gives an indication of whether corporations prefer to expand by buying or by building.

As I no longer have access to those expensive databases, I thought I should update the buy-to-build indicator using an open source. Fortunately, the Institute for Mergers, Acquisitions, and Alliances (IMAA) produces data on expenditure on mergers and acquisitions using those same expensive databases and makes them freely available. I have therefore used them to update my estimates to 2017. The only other change I have made is to simplify the splicing procedure I used previously by reverting to ratio splicing in one overlapping year. The Excel file is here:

http://www.joefrancis.info/data/Francis_buy_to_build_open.xlsx

As can be seen in Figure 1, the resulting series for the United States shows that the tendency toward expanding by buying over building has continued, although it is still considerably below the level achieved in the late 1990s.
I have also updated the series for the United Kingdom, using the same sources as before although with the more simple splicing procedure. As can be seen in Figure 2, the pattern in the United Kingdom is somewhat different. British corporations had a much greater tendency to buy rather than build early in the twentieth century, and the more recent increase has not been as great as in the United States.
I will try to keep the buy-to-build indicators up to date, although it should be fairly easy for anyone to do so as long as the IMAA continue to produce their data.

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