Retrospectives on Merger Policy: A Survey

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Introduction

• Merger policy retrospectives are attracting much recent interest
  – Understandable as economists seek to refine application of policy
• Yet retrospectives not entirely new
  – First appears to have been Barton and Sherman nearly 25 years ago
• Since then, several excellent surveys:
  – Farrell, Pautler, and Vita
  – Hunter, Leoard, and Olley
  – Weinberg
Objective

• Yet those studies are both more and less inclusive than I think desirable
  – To understand why, need to specify objective clearly
• My objective is to evaluate merger policy by assessing outcomes of actual mergers in cases that rise to some level of competitive concern
• Thus: Not all mergers
  – Not studies of “average merger effect”
  – Not all studies
• But: All sound evaluations of specific mergers in US
  – Including some “semi-mergers”—joint ventures and airline code-shares
Data

• Survey (still underway) with grad student Dan Greenfield:
  – studies of 37 mergers
  – involving 42 products
  – with 50 observations on price effects (includes multiple observations on same merger, 3 airlines mergers studied multiple times)

• Of 50 price observations, most come from airlines (13), petroleum (10), hospitals (5)

• Of these 50 price observations:
  – 36 reported price increases
  – 2 reported price reductions
  – 12 estimates of no change or uncertain change

• Seven additional observations from joint ventures and code shares are mixed
Direction of the Project

• Much remains to be done:
  – More studies
  – Quality control
  – Methodological issues
  – Selection issues

• And most importantly, linking each to merger policy actions
  – Most of these are consummated mergers where either FTC or DOJ raised an objection
    • Or case was widely seen as a close call
  – Examining basis for resolution of each case
Retrospective on Potential Competition

• One of these studies is my own, with Evgenia Shumilkina, forthcoming in the Journal of Industrial Economics
• The focus is on markets–routes–not where both carriers were incumbents, but where one was an incumbent and the other a potential entrant
• Interesting economic question is whether the elimination of a potential entrant relaxed the competitive constraint, allowing greater pricing power by the incumbent–even though incumbent concentration did not change
Eliminating Potential Competition

- We found about 1400 markets where either USAir or Piedmont was an incumbent and the other a potential entrant by this definition.
- No previous study has looked specifically at the effects of eliminating a potential competitor.
- Eliminating a potential competitor resulted in a 5-6 percent price increase.
- The price increase on routes that both USAir and Piedmont previously served was 10-12 percent.
Conclusion

• Renewed interest in retrospectives and more careful thinking about methodology allows
  – re-examining past mergers for price effects
  – examining new and different effects—potential competition, service quality, etc.

• Hope is that these studies might thereby improve and influence policy