NON-PRICE EFFECTS OF MERGERS: ISSUES AND EVIDENCE

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Why Study Non-Price Effects?

- Price is not the key strategic variable for some firms, industries, and mergers
  - Might be cost, quality, R&D
- Where both price and non-price variables matter, there may be trade-offs
  - Thus, higher price may be due to improved quality
- Mergers and concentration are not related to non-price outcomes in the same manner as price
  - For example, literature on R&D suggests that some amount of concentration may be helpful
Why So Little Economic Research?

• There is increasing attention to non-price effects in current Merger Guidelines, but…

• Many non-price variables are harder to quantify
  • For example, “quality”

• Data more often are not available

• Causation and implications harder to set out
  • For example, if R&D falls, could be good or bad
  • If quality rises, not necessarily worthwhile
What Are Merger Retrospectives?

• They isolate the effects of mergers by carefully controlling for other possible causes
• About 60 such published studies, covering about 50 individual mergers plus hundreds of groups of mergers collectively
• Most thoroughly studied outcome is price
  • Shows that most merger result in price increases
  • Price increases are substantial
  • Remedies, especially conduct remedies, not very effective
• Focus here is on non-price effects
What Do Retrospectives Show?

• Fifteen studies examine non-price outcomes
  • Three examine individual mergers
  • Rest look at numerous mergers collectively
• Studies report 34 distinct measures of non-price effects
• Two categories of effects of special interest
  • Quality
  • Innovation
Effects on Quality

• Total of 14 distinct measured quality outcomes from 182 mergers
  • In airlines, flight frequency, load factor, etc.
  • In hospitals, readmission rate, in-patient mortality, etc.

• Of these 14 measures:
  • 1 case of quality improvement
  • 1 case of no significant change
  • 12 cases where quality declined after merger

• Overall average effect was decline of 4.2 %
Effects on Innovation

• Five separately measured effects on innovation from 229 total mergers
  • R&D expenditures
  • R&D productivity (patents/R&D)
• Of these, none shows an improvement
  • One case of no change
  • Four cases where innovation effort or output fell
• Overall average effect was decrease of 4.0 %
Caveats

• Data base of studies not very large
  • Many mergers covered in grouped studies, where results are more aggregated
  • Need to be more cautious about sweeping conclusions or policy implications

• But data base and results quite adequate to
  • Underscore concern over non-price effects
  • Cast doubt on argument that non-price effects outweigh price increase
  • Justify much greater efforts to better understand non-price outcomes
Conclusions

• No current evidence that mergers yield non-price effects systematically benefitting consumers or offsetting price increases from mergers

• Need for more and better evidence on wider range of non-price performance measures