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