

**MERGERS: SIGNIFICANCE FOR STRUCTURE,
PERFORMANCE AND PUBLIC POLICY
SESSION COMMENT**

by
Charles E. Helppie*

Recently AEA President Joseph Pechman observed that politicians, not expert economists, direct national economic policy.¹ He further commented that "as the public prestige of economists has slipped, politicians have felt much freer to interject their own pet economic theories in place of those offered by economic experts." Thus, it should come as no surprise to experts in antitrust policy to discover that similar "pet theories" direct national economic policy towards large corporate enterprise, mergers, and economic concentration.

The three papers in this session are to a great extent attempts by economic experts to challenge "pet theories" in current antitrust policy. Professors Walter Adams and James W. Brock challenge the "pet theory" that corporate bigness is efficient and promotes national economic welfare. Professor William L. Baldwin challenges the pet theory that current merger policy is an optimum. Finally, Professor Ronald W. Cotterill questions the pet theory that mergers among large supermarket food chains provide substantial consumer benefits.

These are excellent papers by expert economists. They follow all of the basic methodological requirements for modern economic science. Theirs are sincere and honest professional efforts. I share the Adams-Brock concern over corporate giantism. I agree with Baldwin that Reagan's antitrust policy does not appear to generate long-term welfare gains for the United States. And, I agree with Cotterill that consumers are likely to be adversely affected by the continuation of merger activity among the largest supermarket food chains.

Obviously, I would have no reluctance in assigning these papers to a class in industrial organization. The papers present most of the latest data on corporate size, antitrust policy, and an important policy issue in the food marketing industry. Moreover, the editor of the *Review of Industrial Organization* should be looking forward to their inclusion in a forthcoming edition.

*Visiting Scholar, University of Michigan.

Now, after delivering the traditional encomia, I want to highlight a few issues. Adams and Brock remark that they found it "supremely ironic--and depressing--that American propagandists for bigness should justify their cause by pointing to events abroad." What should really depress them is not this message but the true nature of the messenger. Large corporate enterprises routinely engage in the marketing of national economic policy. And why not? Hasn't a Nobel economist advised that "citizens who ultimately control their own social order. . . search for those rules of the political game that will best suit their purposes, whatever these might be."² And, haven't they also been told that "the electoral process for the selection of legislators. . . creates a market for legislation in which legislators 'sell' legislative protection to those who can help their electoral prospects."³

I believe that the relationship between large corporate size and political marketing in a democracy needs new economic modeling. One of the questions I would like to see tackled by industrial organization economists is whether or not a large flow of corporate political funding can generate a new political industry that then fashions its own policy agenda for the United States.

Baldwin interprets current DOJ merger guidelines as revealing a "relaxation" of antitrust enforcement standards. Professors Greenhut and Benson point out that "under the new guidelines, the [Brown Shoe] case would not even be instituted."⁴ Admittedly, Brown Shoe might have been "a prosecutor's dream."⁵ However, the current DOJ guidelines seem to have erased Section 7 violations from the antitrust handbook. The current HHI (Herfindahl-Hirschman Index) criteria permit a dominant firm with a 30 percent market share to acquire sequentially every small firm in the competitive fringe. Even when the dominant firm reaches 40 percent, it can continue to gobble up sequentially middle-size firms having 7 to 10 percent shares. Isn't this a repudiation of Section 7?

Professor Cotterill contends that "horizontal mergers in foot retailing will tend to substantially lessen competition." Using his Table II, I noted that every one of the listed mergers violated the merger criteria of Brown Shoe. Table II also provides estimates of consumer losses from anticipated price increases. His focus on the interests of the consumer is a significant factor in assessing the competitive consequences of mergers in the food industry. It would please Thurman Arnold but offend a former Secretary of Agriculture who chastized American consumers for enjoying low food prices.

Personally, I support vigorous enforcement of U.S. antitrust laws. As to Pechman's objection to "pet theories," I find instances of what Lasswell called "editing the public map of reality"⁶ in the media

presentation of antitrust policy. Thus, pet theories can become so-called scientific hypotheses. Finally, I have a suggestion for future work. I have been developing EFTEP-I/E balance models for national economies in the global system. I find that the formal inclusion of industrial organization theories is essential for realistic model-building. I urge you to "enter" the field and offer competitive policy modeling to macroeconomics.

Endnotes

1. J. Pechman, ed., *The Role of the Economist in Government: An International Perspective*. (New York, NY: Harvester Wheatsheaf, 1989).
2. J.M. Buchanan, "The Constitution of Economic Policy," *American Economic Review*, 77 (1977): 243-250.
3. R.A. Posner, *Economic Analysis of Law*. (Boston, MA: Little Brown, 1977).
4. M.L. Greenhut and B. Benson, *American Antitrust Laws in Theory and Practice*. (Aldershot: Avebury/Gower, 1989).
5. L. Wood, *In Perspectives on Antitrust Policy*, edited by A. Phillips. (Princeton, NJ: Princeton University Press, 1965).
6. H.D. Lasswell, "Policy sciences," in *International Encyclopedia of the Social Sciences*, edited by D.L. Shills. Vol. 12 (New York, NY: Macmillan, 1968).