



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