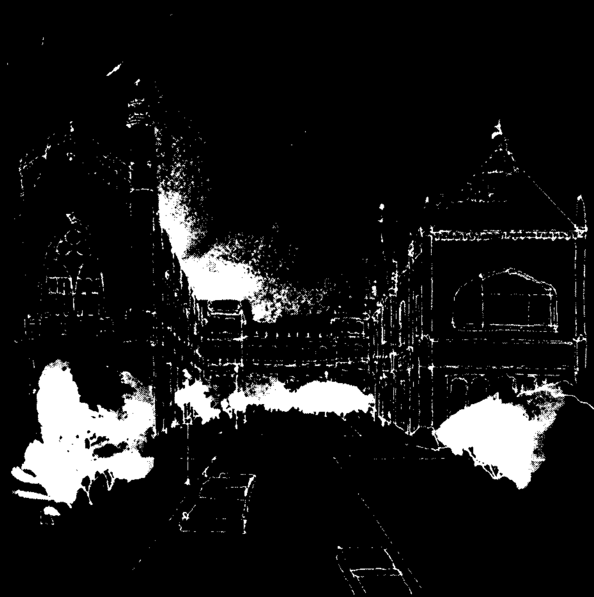
Selected Papers • No. 32

Competition, Efficiency, and Antitrust

By YALE BROZEN



GRADUATE SCHOOL OF BUSINESS
UNIVERSITY OF CHICAGO

YALE BROZEN, Professor the Graduate School of Business, is internationally known for his work in the economics of technological change, welfare economics, and economic policy. Professor Broren was trained as a chemical engineer at the Massachusetts Institute of Technology, and received his Ph.D. in economics from the University of Chicago. He taught at the Illinois Institute of Technology; the University of Minnesota, where he was chairman of the undergraduate economics program; Northwestern, where he was in charge of the engineering economics program, director of research on the economics of technological change, and director of research in the Transportation Center; and at universities in Brazil, Japan, and Switzerland. He has been consultant to a number of the nation's largest corporations, including the American Telephone and Telegraph Co. and General Motors and to numerous governmental and private agencies and organizations, including the U.S. Department of Justice, the National Science Foundation, and the National Association of Manufacturers. His Workbook for Economics has been extensively used in universities in the United States and abroad. Professor Brozen has been published widely in professional journals and elsewhere. In recent years he has been concerned with the economic effects of antitrust policy. This paper is based upon an address made by Professor Brozen at the 18th Annual Business Economists Conference of the Graduate School of Business, held at the University of Chicago's Center for Continuing Education, May 1, 1969.

Competition, Efficiency, and Antitrust*

ECONOMIC THEORY and experience tell us that competition weeds out inefficiency. Competitive markets select those administrators of productive resources who employ the most efficient technology to produce the most efficacious (relatively most desired) products.[1] As a consequence of the competitive process, industry uses resources in the ways which maximize the flow of satisfactions to consumers.

If it happens that the most efficient producer operating at his most economic scale can supply the entire market, competition concentrates production in the hands of one firm. This the textbooks call "natural monopoly."[2] The courts may designate this as legal under

* I am indebted to Betty Bock for her challenge to write this paper, to Joel Segall for the conversations which helped me discard some of the obfuscations which encrust the field of industrial organization, and to Harold Demsetz for denting the stubbornness with which I cling to my errors.

1 A monopolist may be as efficient, as adaptive, and as innovative (Schumpeter argues more innovative, but he fails to consider the shelter provided by patents for investment in the development of new technology. Patents in many, perhaps most, instances provide as much opportunity to recoup and earn a return on such investment as a monopoly of a market) as a competitive industry. However, he is as likely also to be a drone as a competitive firm. In that case, his protection from competition may keep him alive where a drone in a competitive market is less likely to survive and continue his maladministration.

2 It is unfortunate that this term has been applied to a set of circumstances which may be far from monopoly in the sense that a single seller controls the market. If entry into a single seller's market is rapid when the price charged provides a more than compensatory return on the required investment, the single seller cannot control the price and cannot extract any more than the cost of capital as a return.

the antitrust laws because the "monopoly" status was thrust upon the natural "monopolist." Reading some of the language of decisions of recent years, however, beginning with Judge Learned Hand's in the Alcoa case, I am dubious that a single seller could succeed in defending himself on these grounds unless he met certain tests.[3] If his product differed from that of his former competitors and was clearly superior enough in the eyes of all buyers that they willingly paid as high or higher price than that charged by other sellers, this defense might be accepted if his behavior has been pure. If he ever committed a sin, however, such as producing a special model of his product for a large buyer with whom he signed a requirements contract calling for the buyer to assign at least, let us say, three-quarters of his purchases to him before he invested in special tooling for the special model, he will be regarded as having unclean hands and be ruled guilty despite the superiority of his product. If he anticipated an expansion of the market and built capacity in time to supply the needs of his customers as their demand expanded, then superiority of a product and higher price than his former competitors would not preserve him from being ruled a transgressor.[4]

I am afraid that if a single seller succeeded

a Aaron Director and Edward H. Levi point out that Hand distinguishes between a single seller status which has been "achieved" and one which has been "thrust upon" the firm. Although *Alcoa* **tells us that, "the successful competitor having been urged to compete, must not be turned upon when he wins," any single seller status "achieved" by competing% illegal, judging by the outcome in** *Alcoa* **and the reasons given. As Director and Levi pithily summarize this case, "Perhaps, then, the successful competitor can be turned upon when he wins because he has been told not to compete." "Law and the Future: Trade Regulation,"** *Northwestern Law* **Review, vol. 51 (1956), p. 286.**

4 Reading the *Alcoa* **decision, a single seller who supplies the market less expensively than it would be supplied if the market were compelled to support two**

in reaching this position with an inferior product for which he charged less, and enough less to offset its inferiority in the eyes of all buyers, our seller might be ruled as having engaged in predatory action despite this being the efficient way in which to use resources. Of course, if the other sellers he drives from the field by his greater efficiency and lower prices are larger companies engaged primarily in other markets, he would not be ruled in violation of the antitrust laws. In the latter case, he may be able to drive the other companies from the field legally. He may also collect triple damages from them. If they attempted to keep a toe hold in the market by reducing their prices as he reduced his with his drive to larger volume and a more economical scale of operation, they are vulnerable.[5]

---

or more producing organizations cannot defend himself on the grounds that his status was "thrust" upon him if he grew to the scale of operation where he could realize the available economies of scale rather than inheriting his position by contraction of the market to where he was the only supplier left as a survivor from among a group of suppliers. Judge Hand tells us

> It was not inevitable that [Alcoa] should always anticipate increases in the demand for ingot and be prepared to supply them. Nothing compelled it to keep doubling and redoubling its capacity before others entered the field. It insists it never excluded competitors; but we can think of no more effective exclusion than progressively to embrace each new opportunity as it opened, and to face every newcomer with new capacity. . .

Judge Hand felt that such growth is not natural or normal, but it is not at all clear what distinguishes this from natural or normal growth when there are economies of scale that can be attained by larger size, unless establishing a second plant is "unnatural" while enlarging an existing plant *is* natural. He does say

> A market may, for example, be so limited that it is impossible to produce at all and meet the cost of production except by a plant large enough to supply the whole demand (emphasis supplied).

United States v. Aluminum Co, of America, 148 **F. 2d** *416 (2d Cir. 1945).*

5 W. Bowman, "Restraint of Trade by the Supreme Court: The Utah Pie Case," Yale Law Journal, Nov. 1967.

This is only one example of the conundrums that exist in our antitrust policy. These conundrums can be summarized in saying that the law as presently interpreted seems to say that firms should compete but should not win. Firms should be efficient enough to survive but, if more efficient, should not share the fruits of that greater efficiency with their customers. The relatively more efficient firms must not operate competitively. They must not press the rate of output to the point where marginal cost approaches price if that rate of output is sufficient to supply most of the market, particularly if their efficiencies spring from the large scale provision of advertising. We have confused high concentration with monopoly and competitive activity by large firms with predatory behavior. We have taken descriptions of sufficient 'conditions for competition, such as a large number of firms, and confused them with necessary conditions.

If the Antitrust Division and the Federal Trade Commission are to permit the competition which will press efficiency in the economy to its optimum level, then they and the courts must learn what are the necessary conditions for competition. The leap beyond what is necessary to what is sufficient in some circumstances but not necessary is repressing competition when applied in inappropriate cases.[6] Unfortunately, although we economists are very sure of what are the sufficient conditions for competition to prevail, in some circumstances, we are not at all sure of what are the necessary conditions in all circumstances.[7]

[6] When the market can be more efficiently supplied by a single seller, the requirement that there be many sellers (one of the sufficient conditions when there are no economies of scale for a firm whose size approaches that of the market) means that an efficient seller dare not compete since this means he will win the market (he will "achieve" his status).

[7] See George J. Stigler, The Theory of Price, third edition (New York: The Macmillan Company, 1966), p. 89.

Open Entry

Professor Harold Demsetz has argued that a large number of producers is not a necessary condition for competition although more than one bidder may be required.8 He deals explicitly with the case where a single producer can be the most efficient supplier for a market because of economies of scale-the case that has been called "natural monopoly." He demonstrates that a competitive outcome can occur even in this situation if entry is not arbitrarily blocked.

Open entry is, it seems to me, a necessary condition if a competitive result is to prevail in a market.' With the abundant supply of entrepreneurs in the economy, I am willing to say that it is also a sufficient condition. The institutionalization of entrepreneurship in the American economy in the form of the immortal corporation, i.e., immortal as long as it is efficient, has accumulated a large fund of entrepreneurship. I am confident, therefore, that open entry is sufficient to enforce com-

8 H. Demsetz, "Why Regulate Utilities?" Journal of *Law and Economics,* April 1968.

Q In defining open entry, we may follow G. J. Stigler who says, "Free entry . . . may be defined as the condition that long-run costs of new firms if they enter the industry will be equal to those of firms already in the industry. This does not mean, as many infer, that a new firm can enter and immediately be as profitable as an established firm. We do not begrudge the new firm a decent interval in which to build its factory; we should be equally willing to concede a period during which production is put on a smooth-running schedule, trade connections are developed, labor is recruited and trained, and the like. These costs of building up a going business are legitimate investment expenses, and, unless historical changes take place in the market, they must be equal for both established and new firms." "Monopoly and Oligopoly by Merger," *The American Economic* Review, May 1950, p. 27. Although this definition is inadequate, it will do if we exclude from long run costs the capitalized value of such legal privileges as being allowed to have a utility franchise, a tobacco acreage allotment or marketing certificate, a certificate of public convenience and necessity, or one of several of a limited number of taxicab or liquor store licenses or bank charters.

petitive behavior in most, if not all, circumstances.

If I am correct, the task of the Antitrust Division can be confined to the demolition of arbitrary (deliberately devised and imposed) barriers to entry and the prevention of -the erection of such barriers. It need not confuse itself with such tasks as attempting to break up major firms in highly concentrated industries. It need not determine what is a market or an industry.[10] The courts would not have to listen to endless arguments as to whether a line of commerce or a market includes only domestically produced virgin aluminum, all virgin aluminum pig used in the U.S. whether produced at home or abroad, all virgin aluminum pig sold in the U.S. whether produced at home or abroad, all virgin aluminum plus secondary aluminum, all metals used for the purpose for which aluminum is used, all ma terials used for purposes for which aluminum is used, etc. The courts would not have to decide such arguments as whether the shoe market consists of a neighborhood, a city, a metropolitan area, a state, a region, or a nation. If the Antitrust Division concentrated on the task of eliminating contrived impediments to entry, it would efficiently accomplish the twin goals of insuring competitive behavior and maximizing efficiency in the economy. (To the extent that entrepreneurship is not a free good, the Division should, to avoid the diver.

10 The Merger Guidelines (U.S. Department of Justice, May 30, 1968) invites ridicule in its attempt to define markets, particularly in its discussion of the economic barriers ("significant transportation costs, lack of distribution facilities, customer inconvenience, or established consumer preference for existing products") which put a presumed boundary around a "commercially significant section of the country (even as small as a single community)" (p. 10). On the one hand, this seems to say that geography is illegal and on the other that no one can ever be expected to compete by making things more convenient or providing improved products and that those who have won markets in a locality by competing in this way have violated the law.

sion of entrepreneurship into unneeded areas, prosecute those who engage in collusive arrangements.)

Barriers Which Are Not Barriers

This answer sounds exceedingly simple, but the sophists in our profession have confused the meaning of barrier to entry. Because of this confusion, I am sure that the Division would do ridiculous things in the name of removing impediments to entry. Even as enlightened a chief of Antitrust as Don Turner seems to have fallen for the notion that advertising is a barrier to entry. One of the widely used texts in industrial organization tells us that differentiation of product is a barrier to entry.[11] A basic text in price theory admirable for its paucity of errors informs us that, "Barriers to entry arise because of economies of scale."[12]

Limitations on advertising of the kind implied or suggested by those who believe advertising is a barrier would erect a new block to entry rather than removing one. It would, in fact, create grandfather rights. It would

[11] J. S. Bain, Industrial *Organization (New* York: John Wiley & Sons, 1968), p. 255.

[12] G. J. Stigler, The Theory of *Price, op. cit., p. 220.* Stigler apparently retracts this statement in The Organization of Industry (Richard D. Irwin, Inc., 1968) where he says, "Some economists will say that economies of scale are a barrier to entry, meaning that such economies explain why no additional firms enter. It would be equally possible to say that inadequate demand is *a* barrier to entry. If we define a barrier as a differentially higher cost of new firms, there is no barrier . . ." p. 67. He should add that the view that economies of scale are a barrier to entry would also mean that it is equally possible to say that an equilibrium amount of capacity in an industry in purely competitive, long run equilibrium is a barrier to entry. No firm with standard technology would find it worthwhile entering such an industry any more than it finds it worthwhile entering an industry where the economies of scale and limited size of the market have resulted in a single firm occupying the market with a price equal to the average cost required to supply the market at that price.

become more expensive to inform prospective customers that a firm new to a given market is prepared to supply them. It would raise the cost of letting the world know that a better mouse trap has been built. It would force firms to invest more heavily in a dealer network or in a distribution system if they were limited in their advertising outlays, thus raising the long-run cost curves of prospective entrants. It would become more expensive to build volume quickly to a level which would achieve the major part of the available economies of scale. Efficiency would fall because firms would be forced to resort to the inefficient substitutes for advertising they avoid when this method of selling and promotion is open.[13]

Attacks on product differentiation by the Antitrust Division or the Federal Trade Commission also could result in blocking entry, the conclusion of the staff of the Cabinet Committee on Price Stability that "product differentiation protects established firms . . . from potential competitors"[14] to the contrary notwithstanding. A new entrant can usually insinuate itself more easily into the market if its product is not identical with those offered by established firms. Why should buyers switch to a new supplier unless its product serves their tastes more efficiently than those already available? "Product differentiation . . . is often a means of competition that serves the public, providing minimum assurances of quality and catering to a real consumer desire for product improvement or variation."[15]

13 See L. Telser, "Some Aspects of the Economics of Advertising," *Journal of Business,* April 1968; "Advertising and Competition," *Journal of Political Economy,* December 1964.

14 *Studies by the Staff of the Cabinet Committee on Price Stability* (Washington Government Printing Office, 1969), p. 42.

15 A. E. Kahn, "Standards for Antitrust Policy," *Harvard Law Review,* 1953, p. 36.

It may be argued that a market may be more competitive-more open to entry-with product differentiation than without it because of its effect on buyer behavior. Buyers dissatisfied with a product from a current supplier will more readily engage in a search for an alternative supplier if there are no legal barriers to the offering of alternative varieties. If only a standardized product is allowed, search is less likely to be fruitful and less likely to be undertaken. Someone entering the market as a new supplier, then, will be less likely to find buyers seeking him and he will find it necessary to invest more heavily in seeking buyers.

I do not want to belabor you with elaborations of the errors of these notions concerning barriers to entry, but only to indicate that even with the Antitrust Division focusing on the task of removing artificial impediments, there will be thickets of sophistry to *clear* away if the Division is to do a proper job of promoting competition. That sophistry can lead to ridiculous attacks by the Division was certainly demonstrated in one case in which the Division maintained that it needed certain accounting and budgetary data from the defendant in order to prove that he was the low cost producer. The Division's theory was that being a low cost producer conveyed monopoly power by making it possible for the defendant to sell at lower prices than its competitors and thereby drive them from the field.[16] Being a low cost producer and not using such efficiency to pre-empt the market seems to me to be more akin to undesirable monopolistic behavior than pre-empting the market by asking prices such that no inefficient producer finds the market an attractive one in which to remain resident or to enter.

16 Affidavit of A. I. Jacobs, November 5, 1962, p. 8, Civil Action 15816, U.S. Dist. Court for the Eastern District of Michigan.

Efficiency is hardly an arbitrary or artificial barrier to entry.[17]

Real Barriers to Entry

If free entry is the (or only a) necessary condition for the maintenance of the competition which maximizes efficiency, then I would suggest that the Division should be devoting itself to attacking controls on entry. It should be destroying contrived impediments to entry. It should enter those cases where, for example, the Interstate Commerce Commission denies certificates to those who would enter, let us say, the trucking industry. When the CAB denies entry to firms seeking to move into the scheduled air transportation industry, the Division should intervene on behalf of the petitioner. When someone seeks a charter from the Comptroller of the Currency or from state banking authorities to enter the banking business and is arbitrarily denied, the Division should come to the assistance of the applicant. When the Massachusetts Pharmacy Board refuses permission to a pharmacist to open a drug store, presumably because an adequate number already operate in the area, the Division should leap to attack this artificial barrier. When the Minnesota Pharmacy Board denies any non-pharmacist the right to start a drug store and hire a pharmacist, there is a barrier to entry that is certainly arbitrary. The Division should train its legal artillery on the barricade. When New York, Chicago, San Francisco, and all major cities other than Washington refuse to issue taxi cab licenses to those who willingly satisfy all requirements

17 Nevertheless, "the Federal Trade Commission and the Supreme Court have held that the advantages to be derived from increased efficiency after an acquisition might operate as a barrier to entry by third companies into the acquired company's markets and, therefore, might substantially lessen competition in violation of Clayton 7" Betty Bock, Mergers and *Markets: Studies in Business Economics, No. 100,* p. *140.*

for the provision of trained, licensed chauffeurs and safe equipment, with appropriate amounts and types of insurance, the Division could certainly ride to the rescue of the patrons of this fenced-in market. When the Post Office harasses those who would compete with it and shuts them out of the postal market on the authority of a law which makes it illegal for any one but the U.S. Post Office to use a householder's mail box or to carry written messages, the Division should recommend the repeal of such arbitrary barriers. When the Division attacks the New York Stock Exchange, it should concentrate on the practices and rules of the exchange which impede entry to the stock brokerage business, such as limitations on the business member firms are allowed to do with non-member firms or the services they are allowed to perform for non-member firms. Increased ease of entry will do more to generate an efficient set of commission rates than an attack only on the agreement to set rates.

The Division should also be devoting attention to the attempts to erect new barriers to entry. When tariffs are proposed on products which compete with those produced by highly concentrated industries, the Division should attack those rather than concentration. When the Livestock Carriers Division of the Common Carrier Conference-Irregular Route pushes for regulation of truckers carrying livestock and persuades Senator Cotton to introduce legislation calling for regulation, the Division should be prepared to offer opposition. When bills are offered prohibiting banks from entering the computer service market, the Division should be as eager to maintain this source of potential entrants to an industry as it is when it attacks joint ventures and acquisitions.

What Is Entry?

The latter activity by the Division raises some interesting questions as to the meaning of entry and of "arbitrary barriers to entry." It would appear that the Antitrust Division itself has become an arbitrary barrier to entry.

The Division defines entry as the appearance of a new name in the list of those corn-peting for the custom of a given set of customers. If the new name is simply a replacement of an old name because an acquisition has occurred, the Division regards this as no improvement in the competitive situation. In many cases, it has argued that this is a degradation of competition because a name has been removed from the list of potential entrants.

To an economist, expansion of capacity either by de *novo* entrants or by established companies is entry in the meaningful sense of moving resources (capital and manpower) into the use in question. Monopoly in an economically functional sense means a situation where an industry fails to add resources when justified and called for by the demand and cost situation.[18] If customers are willing to pay more for the additional product than the cost of using resources to produce more, and if these resources are not moved into the industry in question, then monopoly prevails and inefficiency is a consequence. Analytically, monopoly is a situation which results in conduct and performance causing an inefficient allocation of resources.[19] (Failure of resources

18 Judge Hand should have praised Alcoa for behaving competitively when it expanded capacity and mill margins declined instead of castigating it for monopolizing by facing "every newcomer with new capacity."

19 See G. J. Stigler, The Theory of Price (New York: Macmillan Co., 1952), revised edition, p. 213. Also, J. McGee, "Some Economic Issues in Robinson-Patman Land," Law and Contemporary *Problems,* Summer 1965, pp. 531-532.

which can be better utilized in alternative applications to withdraw from an industry is simply the other side of the same coin.)

Antitrust Division Barrier

If a potential entrant into an industry chooses to enter by acquisition of an established firm, it will have to offer a price which is worth more to the sellers than retaining ownership of the firm. Presumably, it will offer such a price if it believes that it can manage the acquired assets more efficiently than they are being managed. Alternatively, it finds it cheaper to enter the industry in this way than by building new assets, and it believes the industry worth entering at this cost. If the former is the situation, and the Division blocks the acquisition, it is blocking a probable improvement in efficiency. If the latter is the case, the blockage of the acquisition may block the entry of the firm since more expensive methods of entry may mean that it will not be worth entering at the higher cost.

In both cases, the blockage of entry by acquisition to a firm that might be a potential entrant is likely to block the expansion of capacity which is true entry. In the former case, an improvement in efficiency, if it materializes, will lower long-run marginal cost and lead to expansion beyond what otherwise would have occurred. In the latter case, where a potential entrant finds acquisition the cheapest method of entry, the would-be entrant evidently sees opportunities for expansion and profit not recognized by the resident firm. It is for this reason it is willing to offer a price exceeding the value of the firm to its present owners.

Where a potential entrant sees an opportunity in an industry-perhaps to offer a new product or apply a new technique-it may pre-

fer acquisition of an established firm with a producing organization or dealer body in order to move the new product into the market or apply its new technique quickly. If it must struggle to build a viable producing and marketing organization from zero at the same time that it is trying to develop and establish an innovation, it may find the speed with which it can move its innovation into use hampered. The consequent slower growth may make the payoff too small and too distant to make the investment in product or technique development and acceptance worth the cost. Established competitors will have a long er time in which to develop competitive new products and thus prevent the large sales which would have made entry worth the cost. It appears to be a rule of thumb that an organization growing more rapidly than ap proximately 10 per cent a year (measured by asset growth) finds itself faced with problems which increase costs markedly.[20] This limits the rate of entry (expansion of capacity) and confines the entrant with an innovation to a much lower rate of entry than if he enters via an acquisition.

Preventing acquisitions in new markets or new industries by major firms because they might be potential entrants ***de novo*** may re-***duce*** the number of ***de novo*** entrants rather than increasing them, Antitrust Division expectations to the contrary notwithstanding.

20 G. J. Stigler found that the 15 industries with the largest relative increase in number of firms (1948-1956) had an asset growth rate of 17 per cent per year and a growth rate in number of firms of 9 per cent per year. The industries with the smallest relative increase in number of firms had an asset growth rate of 4.5 per cent and the number of firms declined by 4 per cent per year. *Capital and Rates of Return* **in** *Manufacturing* **(Princeton: Princeton University Press, 1963), p. 32. Interpolating, this argues that an asset growth rate of 8 per cent per year can be readily accommodated by internal growth of resident firms in an industry without costs and prices rising to the level which requires and attracts new firms to minimize the cost of expansion.**

Barring minor firms from selling their assets to leading firms already established in the field and to leading firms outside their field who may be interested in the field will limit their marketability. *De novo* entrance into a field by new firms will be reduced by this lack of marketability.[21] The incentive for entrepreneurs to establish firms will be reduced and it will be more difficult to obtain financial resources. Reduced marketability of minor firms increases the risks to those who might provide financial resources for the establishment of such firms as well as reducing prospective returns to the entrepreneurs involved.

For no apparent reason which can be justified by economic analysis the Antitrust Division and the Federal Trade Commission take a dim view of vertical acquisitions. They do have a (non-) theory of foreclosure-a set of words without an analytic base.[22] Rather than barring the entry of a firm into the industry of its suppliers or customers via acquisition, the Division and Commission should permit such entry for all the reasons described above plus three additional reasons. First, there is a possibility that transaction costs will be re-

21 ". . to forbid mergers that would or might produce substantial efficiencies would narrow substantially the category of acceptable mergers, thereby drastically weakening the market for capital assets and seriously depreciating the price entrepreneurs could get for their businesses when they wish to liquidate. Such a policy . . might have adverse effects on entry and growth of small business . ." Donald Turner, "Conglomerate Mergers and Section 7 of the Clayton Act" *Harvard Law* Review, May 1965, p. 1326.

22 Foreclosure could have an effect, if it has any, only when there is high concentration and difficult entry in at least one of the two industries. Absent this condition, no entrant at either or both levels will be impeded by foreclosure. Even with monopoly at one level, it would be irrational for a monopolist to refuse to buy supplies from more efficient suppliers or to sell products to more efficient distributors than his own. He would hurt his own profits doing this.

duced.[23] Second, where a bilateral monopoly situation prevails, merger will frequently improve efficiency, increase the use of resources which were barred from the two industries, and increase output. The two industries will move closer to a competitive equilibrium. In no case will efficiency and the use of resources in the two industries decrease, moving the industries further from a competitive equilibrium.[24] Third, even where a monopolist acquires customers in order to price discriminate where it formerly was unable to do so for fear of leakage from low to high price customers, the resulting discrimination will almost always result in a greater use of resources and greater output from the monopolist thus moving it closer to the competitive equilibrium.[25] Vertical integration is not automatically anticompetitive and should not be treated as if it were. Even if the vertically integrating firm is a monopolist in its original field, integration does not extend monopoly power outside the field of the monopolist.

With open entry, we can be less fearful of horizontal acquisitions. This is the one variety of acquisition where the acquiring firm may find the acquired firm worth more to it than to the seller for reasons other than those which are likely to result in greater efficiency and more entry or, perhaps saving in taxes (if we consider saving taxes as an instance which cannot be classified under the efficiency-entry classifications). If entry is slow for rea-

23 R. H. Coase, "The Nature of the Firm," *Economica,* New Series, Vol. IV (1937), pp. 386-405.

24 G. J. Stigler, The Theory of *Price,* third edition (New York: The Macmillan Company, 1966), pp. 207-208.

25 "The final result of effective price discrimination might be a total output that falls not far short of the competitive level. Thus monopoly that cannot discriminate may lead to a more serious misallocation of resources than one that can." L. Telser, "Abusive Trade Practices: An Economic Analysis," *Law and Contemporary Problems,* Summer 1965 (Vol. XXX, No. 3), p. 504.

sons other than arbitrary barriers, or arbitrary barriers are not completely removed, then a case can be made for preventing the growth of undue concentration via the horizontal acquisition route. Open entry will not, then, be a sufficient condition to prevent monopoly or undetected collusion in the short run and, with arbitrary barriers remaining, it cannot prevail and prevent long-run monopoly.

On Conglomerates

The current furor over conglomerates ap parently may. lead to legislation limiting the ability of multi-industry companies to move into new fields. If this occurs, it will block the openness of entry which I believe is the one condition necessary to enforce competition. It will reduce the list of potential entrants. The Antitrust Division should be alert to such a possibility and be prepared to recommend against inappropriate legislation.

To the extent that conglomerates improve efficiency in the use of resources currently applied in a field by acquiring those which are poorly managed, the antitrust authorities should approve. If they remove resources from fields where they are used less efficaciously than they can be used in alternative applications, and move them into these applications, conglomerates should be applauded. These activities make markets more competitive and move industries more rapidly toward a long-run competitive equilibrium than might otherwise occur.

To the extent that conglomerates are saving corporate taxes by converting dividends into interest payments and find it profitable to operate with higher leverage, given the risk preferences of their stockholders, they are simply doing for such stockholders what the acquired companies could and should be doing

themselves for their stockholders. This activity does not require the conglomerate form. It does require the kind of entrepreneurship which is scarce enough that it finds it profitable to do this in company after company. To the extent that antitrust laws bar doing this in company after company in the same industry, these entrepreneurs do it in companies in various industries and become conglomerates as a consequence.

As entrepreneurship of this kind is imitated and spreads, financial structures of single industry companies will be reshaped by issuing debt to obtain the funds to make tender offers for their own stock if the risks involved do not make this unprofitable. With high lever age and most earnings paid as interest, the one industry corporation will not be attractive to the outside leveraging, tax-saving entrepreneur. If most one-industry corporations for which it is profitable to move in this direction move, this type of conglomerate will cease to appear or to grow.

Open entry may be a sufficient condition for competition and enforcement of efficiency. The meaning of entry has been confused by considering only the appearance of a new contender in the market as entry and failing to consider that any expansion of capacity from whatever source is entry. Such expansion of capacity by a major firm has even been called a barrier to entry when it is anything but that in any economically meaningful sense.

To make our markets more competitive, the main thrust of antitrust activity should be in the direction of removing contrived barriers to entry. We must recognize that calling something such as advertising and product differentiation barriers does not make them such. The main barriers to entry are those imposed

by regulatory commissions, tariffs, quotas, licensing requirements, and some of the activities of the antitrust authorities. They can at least cease these activities. Further, they can act as a "friend of the court" before agencies that are rejecting would-be entrants in many fields. Also, they should be recommending against proposed legislation which would erect more barriers and pressing for repeal of present legislative barriers. The return, in terms of the restoration of meaningful competition in the now protected areas, can be very large indeed, especially in the reinvigoration of the forces which guarantee efficiency and spur innovation.