Discussion of “Optimal Merger Standards for Potential Competition”

Florian Ederer[‡]

[‡]Yale School of Management

IIOC

May 1, 2021

An Intriguing New Paper

- Significant theoretical contribution to the growing literature on nascent and killer acquisitions
  - A formal model of innovation incentives and merger review with ex ante incentives and ex post welfare effects
  - Provides guidance for how antitrust policy should respond to such acquisitions
- Main takeaways
  - Antitrust enforcement influences (and optimally distorts) both the level and the direction of innovation
  - Considering ex ante investment can lead to a stricter or more lenient optimal merger standard
  - Impact depends on which welfare standard is used
- **Disclosure Statement**
  - I am incredibly biased in favor of this paper given my own work on this topic.
  - I encourage more (complementary) work on this topic.

Related Literature

- A couple of recent related papers also explore the interplay between antitrust enforcement and startup acquisitions
- Letina, Schmutzler & Seibel (2020) show that prohibiting killer acquisitions strictly reduces the variety of innovation projects, but prohibiting other acquisitions only has a weakly negative innovation effect. They also identify conditions under which prohibiting acquisitions to enhance competition would be justified.
- Callander & Matouschek (Management Science 2021) demonstrate a positive role for a strict antitrust policy that spurs entrepreneurial firms to innovate more boldly (i.e., influences the direction of R&D).
- Gilbert & Katz (2021) show that policies focused solely on a proposed mergers ex post welfare effects can induce an entrant to choose an inefficient direction for its pre-merger investment.

More Intuition and Clarity

- Main driving force of the paper is that changing the antitrust standard not only changes the incentive to innovate at all ...
- ... but differentially affects the incentives to develop a complement rather than a substitute product.
- There is just an extremely short half-sentence in the paper that mentions this point, but does not explain it in detail.
- As my students would say: **"pls fix"**
- Only role of antitrust enforcement in this model is to detect and prohibit mergers. Can the model explore more actions for the antitrust enforcer?

Graphical Presentation

- I like the simulation results a lot ...
- ... but I wish there would be a way to present them more clearly!
  - Currently, it's just "a wall of text."
  - Remarks 7 and 8 run across 3 pages **each**!!!
- Maybe there is a way to show dominance region graphs in simple 2D plots?
- Or, at the very least, a table that summarizes the findings of the simulations?

Conclusion

- What this paper says
  - Antitrust enforcement influences both the level and the direction of ex ante investment incentives
  - Optimal antitrust enforcement standard generates some bias towards substitute investment and insufficient ex ante incentives
- What this paper does **not** say
  - Taking ex ante investment incentives into account always lowers the antitrust enforcement standard
- An intriguing paper
  - Suggests that future work in IO should explicitly incorporate the interplay between antitrust enforcement and the direction of innovation
  - Gives economists (rather than non-PhD Economics law professors) something to say on antitrust policy to address the challenges of startup acquisitions

Thank You!

References I