

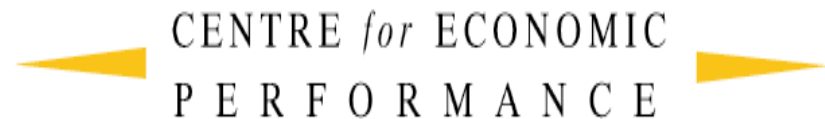
More than Price Effects

Professor John Van Reenen

Department of Economics, LSE

Director, Centre for Economic Performance

CRA Conference December 2015



INTRODUCTION

- Competition authorities usually reluctant to accept “Failing firm defence”
- But recent cases more common (“Flailing firms” too?) – EC 2013: Aegean Airlines/Olympic Air; Shell/Nynas; UK Comp Commission: Optimax/Ultralase
- Shift in manufacturing to low cost areas of Asia means excess capacity & inevitable exit of assets
- Financial crisis gives rise to more distressed firms
- Both in mergers & state aid many calls by EU Policy Makers to be more lenient on allowing M&A as part of industrial strategy

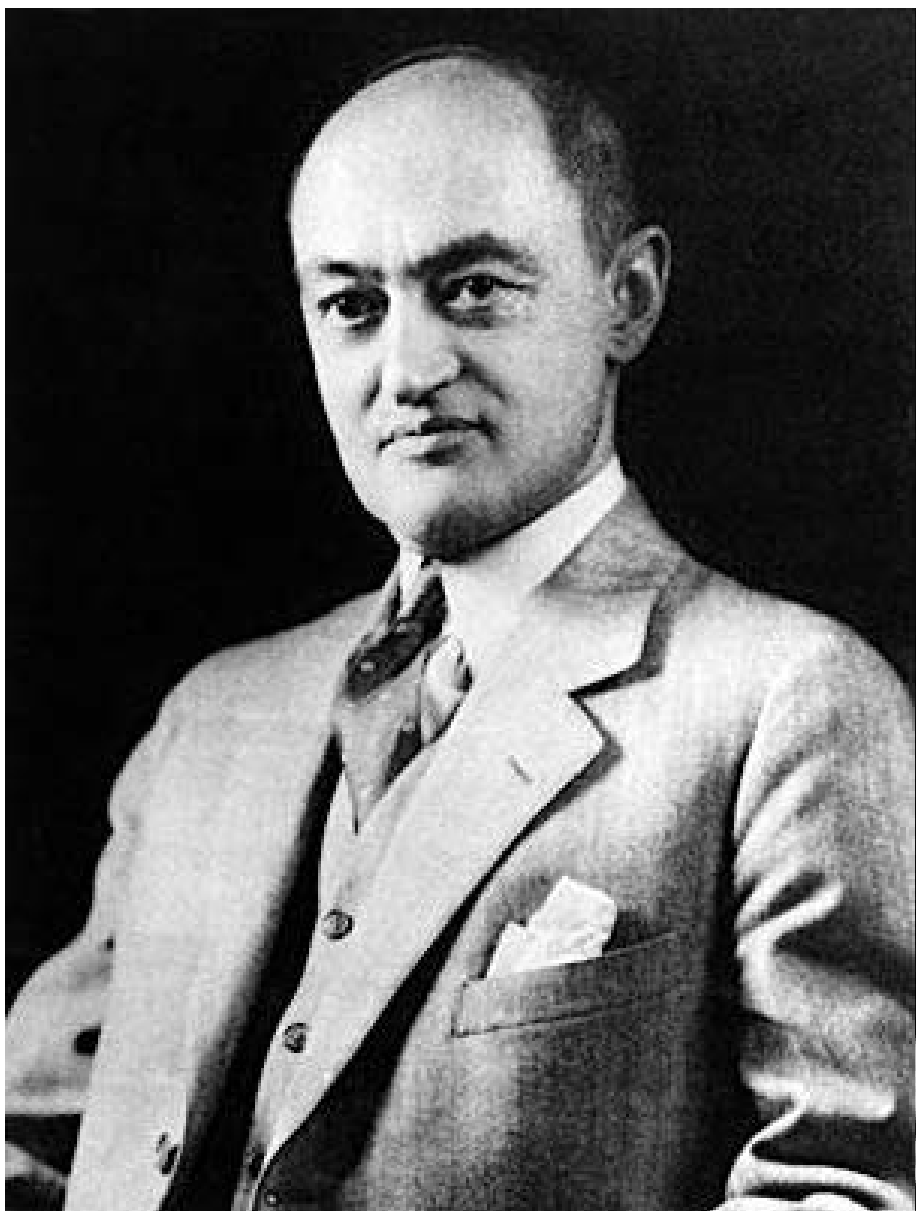
CRITERIA FOR FAILING FIRM DEFENCE

- Idea: In world “but-for” the merger the outcome would be even less competitive. Three necessary conditions:
 1. In absence of takeover, target would leave the market in near future. **If so:**
 2. Without takeover, targets assets would leave the market; **and:**
 3. There is no less anti-competitive purchase than the particular transaction under consideration

WHY ARE CRITERIA SO STRICT?

- Productivity growth the most important aspect of long-run economic performance (determines income growth)
- Economic research on “Big Data” using firm & plant level data on 100millions of firms
- **Traditional view:** productivity all about firms adopting new technologies
- **New view:**
 - Huge dispersion of productivity between firms
 - About ½ of economy wide productivity growth is due to industrial restructuring: inefficient low productivity firms & plant shrinking/exiting
- M&A shouldn't prevent necessary reallocation of assets within a sector or necessary exit of inefficient firms

This is very much in the spirit of Schumpeter



This is very much in the spirit of Schumpeter

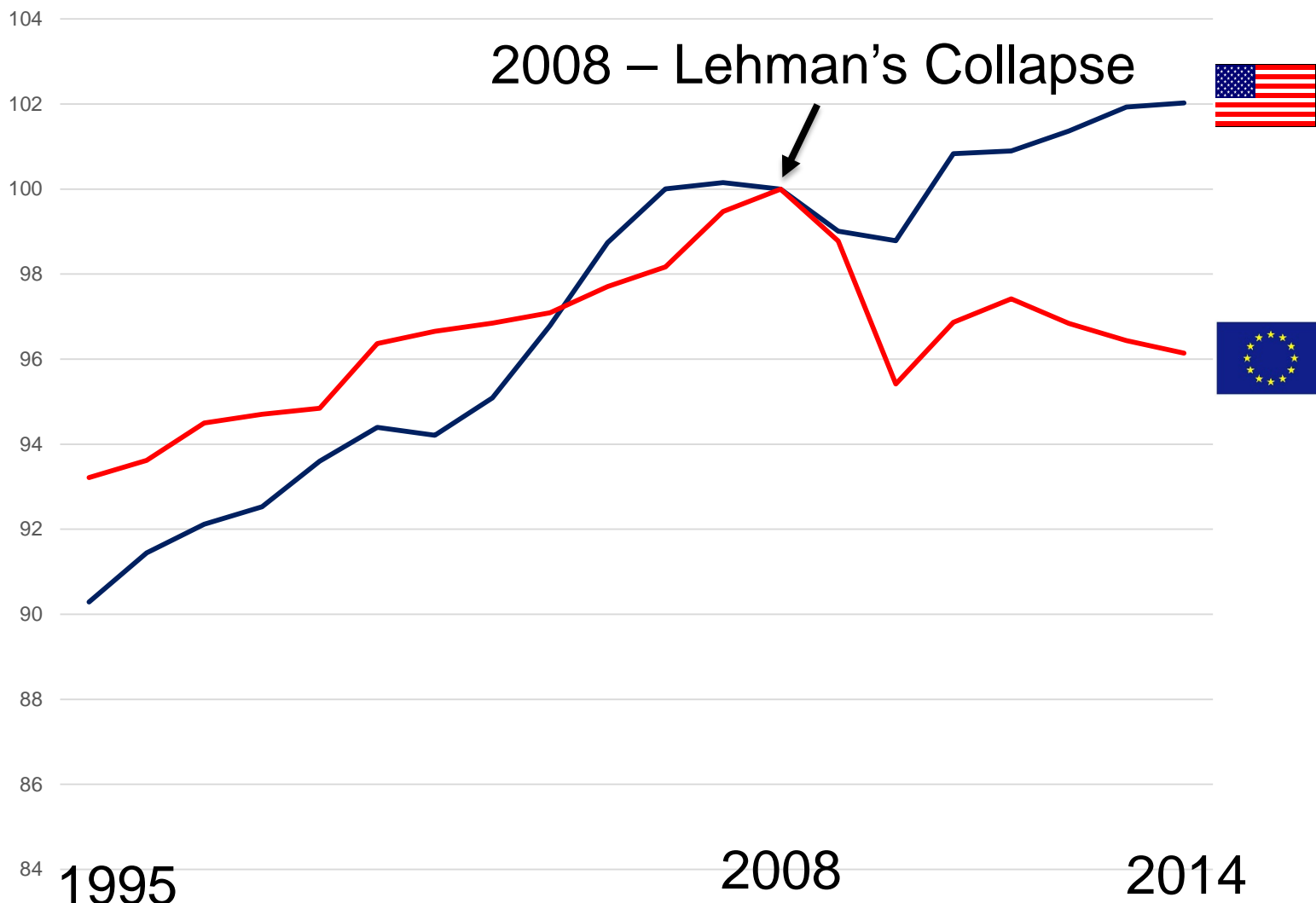
“The fundamental impulse that keeps the capital engine in motion comes from the new consumers’ goods, the new methods of production and transportation, the new markets... [The process] incessantly revolutionizes from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact of capitalism.”

Schumpeter (p. 83, 1942)

Although probably his most famous quote was:

“Early in life I had three ambitions. I wanted to be the greatest economist in the world, the greatest horseman in Austria, and the best lover in Vienna. Well, I never became the greatest horseman in Austria“

EUROPEAN PRODUCTIVITY, 1995-2014: FALLING FURTHER BEHIND US, ESP SINCE 2008



Notes: Cumulative TFP growth index=100 in 2008

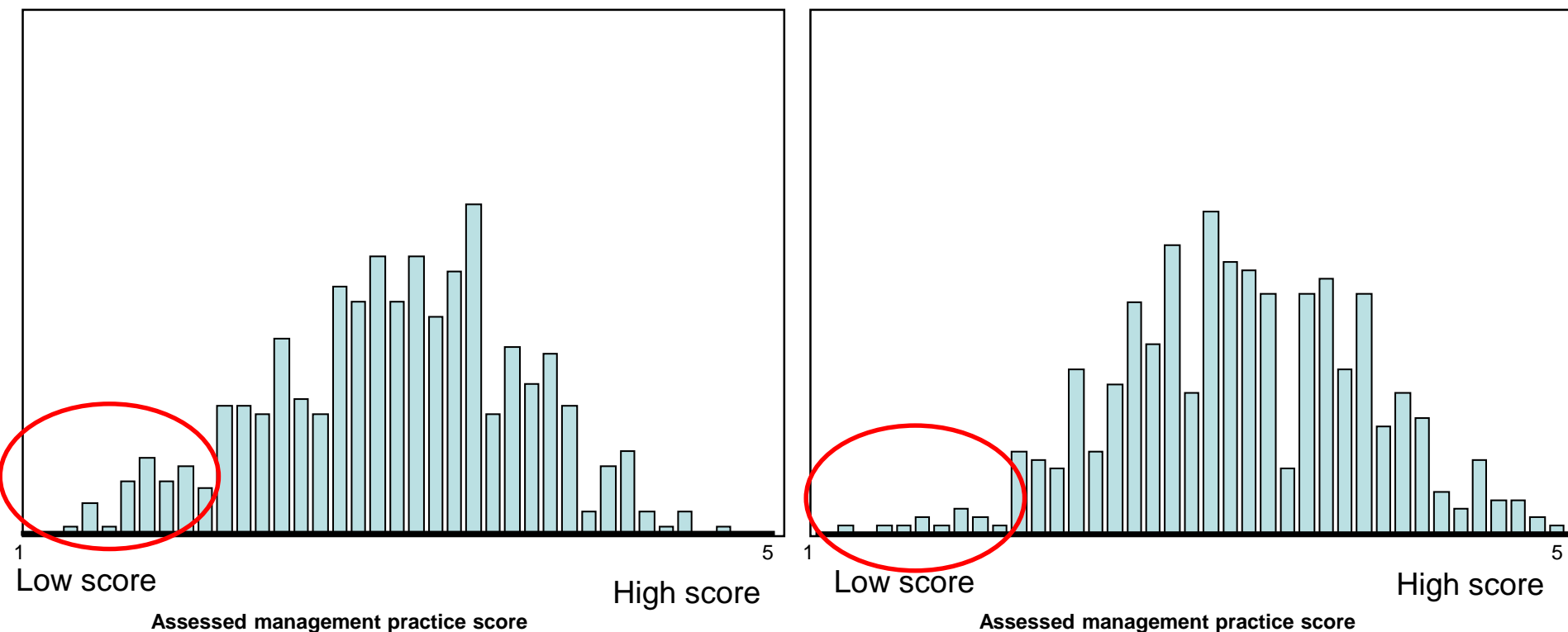
Source: Conference Board Total Economy Dataset (2015)

MUCH OF THE EU-US DIFFERENCES DUE TO THE “LONG TAIL” OF LOW PRODUCTIVITY FIRMS. EXAMPLE:

% of firms with different levels of management quality

 FRANCE

 U.S.



Source: Bloom, Sadun & Van Reenen (2015), WMS Survey

<http://worldmanagementsurvey.org/> ~14,000 firms

ASSESSMENT

- Aegean Airlines/Olympic Air
 - Ongoing Greek crisis made it highly likely Olympic would exit & no credible alternative buyer (cf 2011 Decision)
- Shell/Nynas
 - Nynas buys Shell refinery at Harburg. Becomes only naphthenic base & process oil producer in EU
 - Shell showed refinery economically unsustainable in current form. No alternative buyers. Also some efficiency savings
- Optimax Clinics & Ultralase
 - 2 of 3 largest UK providers of laser eye surgery (Optical Express twice as big as combination)
 - CC considered Ultralase would've exited. Other bidders looked non-credible. Market share distributions similar (diversion ratios)
- Long Clawson/Millway (2009); Kingfisher/Focus (2011)

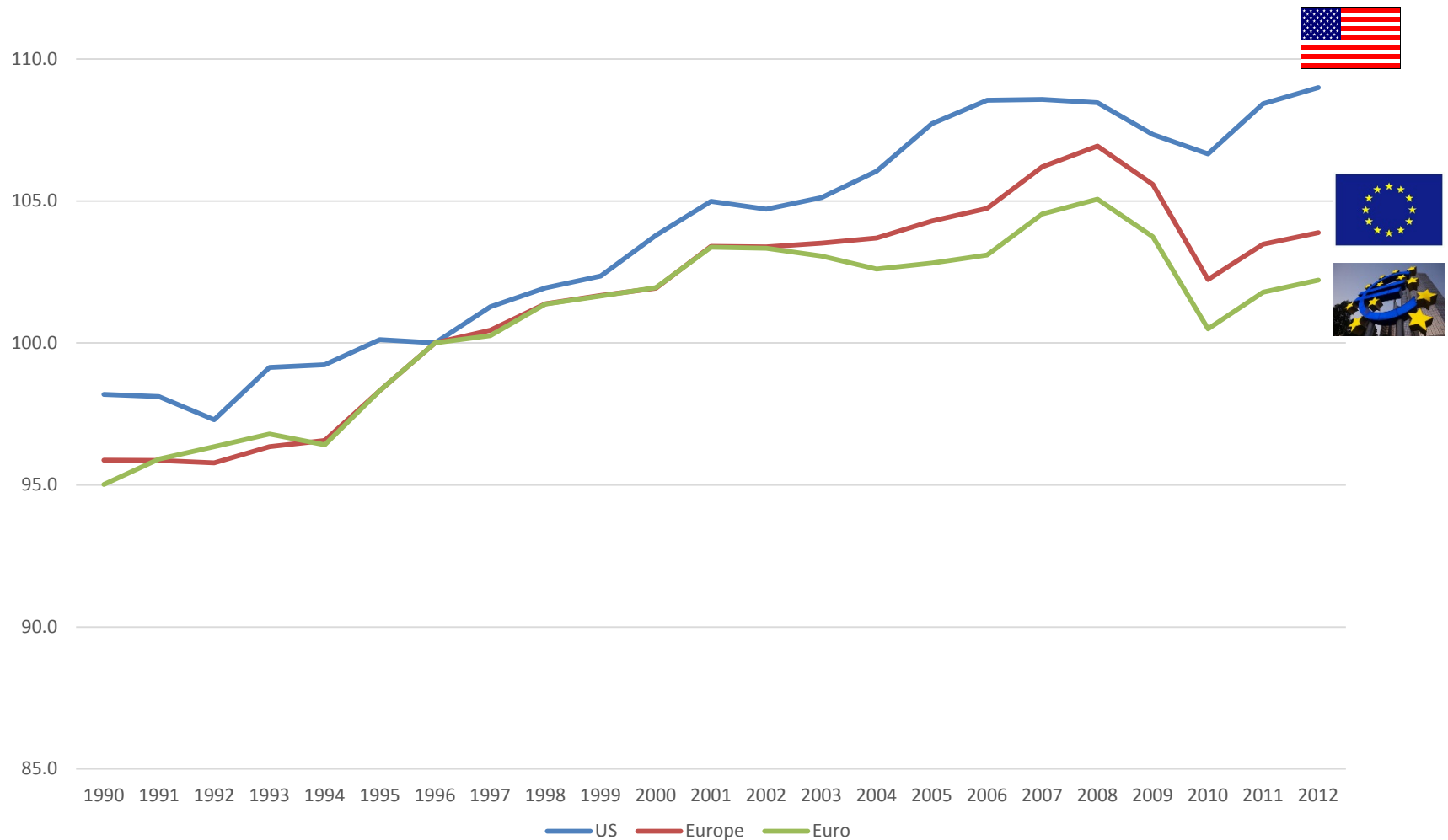
EXAMPLES (2013)

- Currently possible to run failing firm defence successfully
- Unclear that there is a case to weaken current framework
- Does show importance of carefully considering counterfactual evidence

FURTHER READING

- Van Reenen, John (2011) “Does competition raise productivity through improving management practices?” *International Journal of Industrial Organization*, 9(3), 306-317, <http://cep.lse.ac.uk/pubs/download/dp1036.pdf>
- Aghion, Philippe Tim Besley, John Browne, Francesco Caselli, Richard Lambert, Rachel Lomax, Nick Stern and John Van Reenen (2013), “Investing for Prosperity: Report of the LSE Growth Commission” <http://www2.lse.ac.uk/researchAndExpertise/units/growthCommission/documents/pdf/LSEG-C-Report.pdf>
- <http://blogs.lse.ac.uk/politicsandpolicy/archives/8131>
- <http://worldmanagementsurvey.org/>

EUROPEAN FALLING FURTHER BEHIND US PRODUCTIVITY SINCE MID 1990S



Notes: Cumulative TFP growth index=100 in 1996

Source: Conference Board Total Economy Dataset (2013)