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CONGLOMERATES AND BUSINESS COMPETITION: AN INTRODUCTION

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The conglomerate issue is as diversified as the conglomerates themselves often are. The variety of subjects covered in this *Symposium* is impressive proof of that fact. No simple analysis or solution is likely to prove satisfactory under these circumstances, especially since much of the controversy over conglomerates has added confusion rather than clarity to the picture.

This introduction makes no effort to do more than offer a business economist's approach to the economic data and analyses made available by this *Symposium*. As I see it, the basic question to be answered in the area of economics is this: What impact do conglomerates actually make on business competition?

By "business competition" I do not mean any theoretical or textbook formulation. As used here, business competition refers to the day-to-day market place experience of (a) suppliers trying to sell their products or services to prospective purchasers, and (b) buyers trying to decide how much of their business they should give to what suppliers.

Granted that there is no simple or generalized across-the-economy answer to the question raised here. In this post-moonshot era, the complexity of the answer is no longer an acceptable defense for ignoring a relevant question and surely the actualities of marketplace competition are most relevant to antitrust policy and philosophy. At issue here is whether reliance should be placed any longer on the innuendoes of structural data or whether the focus should be on direct readings of marketplace conditions which empirical data and analyses would provide.

Concentration ratios illustrate the problem with structural data. They are used extensively in discussions of various kinds of mergers, including those involving conglomerates. They have been employed usually to imply the deterioration or low level of competition in an industry or market. Based as they are on traditional industrial classifications or market definitions, they tell us less and less about the state of actual marketplace competition as companies, industries and markets change. Technological change has long been eroding the usefulness of industrial classifications in defining areas of competition. A number of the participants in this *Symposium*, who differ widely on antitrust policy and on conglomerates, are nevertheless in general agreement on what technology is doing to familiar market concepts and patterns:

Corwin Edwards — The boundaries of markets are being obscured as a

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consequence of the increasing size of firms and the development of technology.[1]

L. E. Birdzell — New product technology frequently ignores existing market patterns. The electronic and chemical industries are extreme — but not unique — examples of the impossibility of keeping technological competence within the bounds of any definable historic product markets.[2]

Werner Sichel — The term "competition" is meaningless unless related to a particular market and it is the relevant market that must be ascertained. We are accustomed to using "industries" to separate our markets and only seldom realize how very unsatisfactory and arbitrary these boundaries are.

. . . .

[T]he modern corporation is simply defying our old industry classifications. The activities of many of our leading corporations increasingly range over a wide area. I believe the conglomerate merger data in Part I might look very different if we were to abandon many of the Bureau's industry classifications and substitute some of the following: the energy industry, the aero-space industry, the resources industry, the communications industry, the amusement or leisure-time industry, the transportation industry, and the consumer-branded products industry.[3]

The President's Task Force on Productivity and Competition,[4] headed by George J. Stigler, characterized the "definition of the market," on which concentration ratios are based, as "so loose and unprofessional as to be positively embarrassing."

Even if the problem of establishing realistic market definitions were to be solved, there would still be the need to get beyond the generalities of concentration ratios. Staff studies of the Cabinet Committee on Price Stability[5] declared that "[m]arket concentration is directly related to the intensity of competition in an industry." Jules Backman's paper in this *Symposium* makes the point that "[b]ig Fours in highly concentrated industries may compete among themselves with a vigor and intensity that is as great, if not greater, than the competition found in industries much less concentrated. The existence of some degree of concentration is not equivalent to the absence of competition."[6] Those of us who work directly with individual industries know that no one yardstick is a reliable barometer of competitive conditions in all or even in most industries these days. While I see corroboration of Jules Backman's position in individual instances, no generalization would be valid. There is no short-cut statistical formula for determining the state of competition in an industry. It can be determined only by direct examination of market conditions.

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1 *See* p. 416 *infra*.

2 *See* p. 300 *infra*.

3 *See* pp. 362, 364 *infra*.

4 1969 PRESIDENTIAL TASK FORCE REPORT ON PRODUCTIVITY AND COMPETITION, 115 CONG. REC. 6472 (daily ed. June 17, 1969).

5 STUDIES BY THE STAFF OF THE CABINET COMMITTEE ON PRICE STABILITY 54 (1969).

6 *See* p. 127 *infra*.

The tendency to look elsewhere, rather than at marketplace conditions, in appraising competition, is evident also in the disputes over reciprocity and cross-subsidization, and general arguments on each side of these issues are persuasive and logical to their respective adherents. Here again, the first step should be a look at what really happens in the marketplace, instead of being preoccupied with speculations as to what *could* or could *not* happen.

With reference to the emphasis being placed on macro or aggregate concentrations, based on statistics which lump together the 100 or 200 largest manufacturing companies, there is need to explore the relevance of such data to questions of competition. J. Fred Weston, in his contribution to this *Symposium*, offers an explanation of the increase in conglomerate mergers in terms of the increased pace of technological change, shortened product cycles and developments in management technology.[7] If empirical data for the industries he mentions and for other industries substantiate his analysis, then the implications of aggregate data on the largest firms are unjustified. Here again, general debate over this new kind of concentration data gets nowhere. They are meaningful, economically speaking, if there is basis for the notion that either an economy-wide anticompetition conspiracy exists among these largest firms or that their very size precludes any kind of competition among them. But thus far there are only insinuations, not information. Again, the need here is for specifics, not logical abstractions.

At the risk of being accused of generalizing myself, it seems to me that there is too much of a tendency, in the words of Jules Backman, to equate "potentiality with actuality," in dealing with the conglomerate issue. If, as I suggested at the outset, the focal point should be the impact on business competition, top priority in economic debate and analyses should be given to the determination of what the competitive situation is, not to speculations as to what it could be.

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[7] *See* p. 66 *infra*.