Handbook of Antitrust Economics*

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The Handbook of Antitrust Economics (edited by Paolo Buccirossi) is a collection of 17 essays (each about 50 pages long) written by renowned scholars and professionals in antitrust economics. As such the book gives a broad and excellent overview about the theory, empirics, and practice in the field of antitrust economics ranging from its basic concepts to recent (i.e. until 2007) contributions and cases.

Chapter 1 presents both economic and econometric methods for defining markets and measuring market power. It sets the stage by showing how law and economics interact in antitrust practice. Its special appeal lies in intuitively describing empirical methods to be applied in specific cases and industries and at the same time highlighting the burden on the legal system once a one-size-fits-all approach to analyzing business conduct is abandoned.

Chapters 2-5 of the book are concerned with the economics of mergers. After defining the relevant market, competition authorities assess both the unilateral (chapter 2) and coordinated (chapter 3) effects of a merger. Chapter 2 reviews how market outcomes are likely to change due to changes in the incentives of the merging parties. The chapter evaluates the resulting unilateral effects for Cournot-, Bertrand-, and auction-models and discusses in how far merger simulation models can be helpful in quantifying these effects. The authors show that the application of IO-theory may reveal misconceptions by judges, which can even be found in high-profile cases such as the Oracle-Peoplesoft merger. Chapter 3 on coordinated effects starts with a review of the theory of collusion. It then shows that simple extrapolation of this theory to mergers misses key points in the evaluation of the potentially collusion-enhancing effects of mergers. Based on the limited theoretical knowledge about these effects, the author proposes to use negative tests only. Such tests are directed at identifying save havens, i.e. conditions under which coordinated effects of mergers are unlikely to arise. Somehow contradictory to recent German practice in cases of collective dominance, Kai-Uwe Kühn argues for a very conservative benchmark in the analysis of mergers'

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coordinated effects. Chapter 4 examines the competitive effects of vertical integration, both from the viewpoint of competition policy and of industry regulation. The chapter contrasts the single monopoly profit theory of the Chicago School with Post-Chicago type theories. The earlier stress pro-competitive and efficiency enhancing effects of vertical integration while the latter highlight the potential anticompetitive effects of integration. In particular, vertical integration might possibly enable incumbents to raise rivals' costs and to restore the monopoly profit. In this chapter the role of the various theories in recent US-cases is discussed. The chapter's policy conclusion is twofold. First and as a general presumption, vertical integration is pro-competitive. Second, the potential harm requires a careful balancing of the competitive impact of vertical integration.

This part on mergers of the Handbook of Antitrust Economics concludes with an essay on conglomerate mergers (chapter 5). It is concerned both with the theory (especially contingent sales) and practice of conglomerate effects in particular in EU merger control. The latter is a heavily disputed area. The General Electric/Honeywell case gave rise to disputes between the EU and the US authorities. In the Tetra Laval/Sidel the Court of First Instance annulled the European Commission's decision. It is interesting to note that the author of this chapter became Chief Economist in the Competition Directorate General of the European Commission shortly after preparing this rather critical account of the Commission's practice.

Chapters 6-8 give an overview about the theory and legal treatment of collusion. Here, a slightly altered order of chapters (i.e. 8, 6, 7) would have improved the clarity of this section even further. Chapter 8 provides an overview on the theory of collusion especially with regard to practices that facilitate collusion. Some emphasis is put on the role of information-exchange for the stability of collusion on the one hand, and for welfare on the other hand. One highlight of the book is chapter 6 that is concerned with methods for detecting cartels. In this chapter Joseph Harrington provides an excellent introduction to and discussion of recent methods for cartel-detection. This treatment of mostly empirical methods is done in a non-technical way so that this chapter will be enlightening especially for non-econometricians. Chapter 7 on leniency and whistleblowers in antitrust exhibits two features that are not standard in economics. First, this topic is close to antitrust *law*, which in this case drives rather than parallels economic research both on the empirical as well as the theoretical side. Unfortunately, the chapter does not comment on the 2006 EU-leniency notice. Second, the topic has a special characteristic since it requires to link economic research to the research of crime. On the one hand, this is rarely done. On the other hand, this also means to deal with experimental evidence which is a relatively new field in economics.

In chapters 9-12 other "classical" practices are reviewed and analyzed that raise competitive concerns. Chapters 9 and 10 provide a theoretic respectively empirical treatment of vertical restraints. Chapter 9 discusses payment schemes and issues of vertical coordination (e.g. double marginalization, aftermarkets in goods and/or services, and market foreclosure) both from an economic and a legal perspective but always in an intuitively understandable way. Chapter 10 reviews empirical literature that evaluates the effects of vertical restraints. In doing so, it presents and categorizes the few existing studies' designs. Besides, it summarizes and compares the studies' results. The authors find that consumer well-being tend to be congruent with manufacturer profits. The empirical evidence summarized suggests that a fairly relaxed attitude toward vertical restraints is warranted. Chapter 11 concerns the abuse of market power and presents the law and cases on e.g. predatory pricing, selective price cuts, and margin squeeze. It highlights the advantages of an economics-based approach when dealing with the abuse of a dominant position. In making this point, the chapter emphasizes that grounding the treatment of cases in economics must not mean to replacing legal rules by discretionary decision making. Chapter 12 presents the various forms of price discrimination and payment schemes. Additionally, it quite nicely summarizes studies on these payment schemes' effects on welfare in various market structures.

Chapters 13-17 constitute a fascinating part of the book by examining “less-classical” issues in antitrust economics. Therefore these chapters are especially insightful for both scholars and practitioners working on the before mentioned areas of mergers, collusion, and abuse of dominance who nonetheless would like to stay informed about the state-of-the-art in other fields of antitrust economics. Chapter 13 gives an introduction to public policy in network industries. It describes the special features of markets with network effects such as positive externalities and complementarities of different network pieces. Due to these effects the respective industries typically exhibit extreme market share and profits inequality even if entry is free. This leads to intricate problems for competition policy. The chapter discusses both the importance of sector-specific regulation in this context as well as recent antitrust practice in network industries, most notably the Microsoft case. Chapter 17 on state aid is particularly important with regard to antitrust practice. There, a 3-step test is proposed to direct the analysis of state aid from a form-based approach to an effects-based approach. The topic of this chapter receives some further importance in the light of the current financial crisis.

By reviewing the theory of two-sided markets, chapter 15 provides a look into a vastly new area that will possibly gain further attention by competition authorities in the future. In a two-sided market a firm provides goods or services to (at least) two sorts of end-users. E.g. a payment card company may charge buyers and/or sellers of a good or service for transferring money from the buyer to the seller. Therefore, the payment card company must decide how to distribute fees among either side of the market taking into account demand elasticities and possible externalities on both sides of the market. The choice of such payment schemes may affect welfare adversely in a variety of ways and, thus, may be subject to antitrust control. Chapter 14 discusses the relationship between antitrust laws and intellectual property rights. These laws may be in conflict since an important part of antitrust laws is concerned with achieving allocative efficiency by limiting firms' market power such as to keep prices at a competitive level. However, intellectual property rights are concerned with fostering dynamic efficiency by protecting firms from imitation of their products and ideas and, thus, giving them the right to charge above-competitive prices. Understanding the economics behind this possible area of conflict is required to correctly adjust the relationship between these two types of law. Chapter 16 lays out what “bidding markets” are and how they relate to auctions and bidding processes. Identifying various fallacies concerning market power in such markets, the author concludes that some of the features of these markets imply a need for stricter rather than the more lenient antitrust policy often advocated when bidding processes are involved.

Regarding the book as a whole, it certainly is a must-have for everybody who deals with either antitrust law or with antitrust economists and, thus, has prior knowledge in this field. It complements and augments Motta's (2004) textbook by providing in depth discussions of both recent theoretical developments and important cases both from the U.S. and the EU. The Handbook of Antitrust Economics may not be mistaken as a manual of antitrust economics that describes the details of theories and methods/tests. Rather it puts the reader at the forefront of the academic and policy debate in antitrust. The Handbook of Antitrust Economics helps the informed reader to stay up-to-date about the new developments in antitrust and it provides an excellent starting point for more in-depth inquiries.

References:

Motta, M. (2004), Competition Policy. Theory and Practice. Cambridge University Press, Cambridge.