Book Review

The Conglomerate Corporation: An Antitrust Law and Economics Symposium
Edited by Roger D. Blair and Robert F. Lanzillotti
Cambridge, Mass.: Oelgeschlager, Gunn & Hain, 1981.

Mergers, economic concentration, and the phenomenon of the "conglomerate corporation" have been subjects of both academic and political interest for several decades. Conglomerate mergers are particularly interesting since they remain a theoretical and empirical puzzle. To date, although the motives for specific mergers may be identified, no one has offered a complete and testable explanation for the so-called conglomerate merger waves of the late 1960s and mid and late 1970s. *The Conglomerate Corporation* is the published proceedings of a recent law and economics symposium jointly sponsored by the Graduate School of Business and the Public Policy Research Center at the University of Florida. This well-structured and provocative survey work adds few new pieces to the puzzle but does a good job of assembling existing knowledge in the area.

The collection of 10 papers and related remarks by discussants provides a summary of existing economic theories of conglomerate mergers, reviews empirical evidence, and examines legal aspects of conglomerates. The topics in general complement one another, although some of the material appears to be directed to a different audience. Policy issues are also examined, such as the "Kennedy bill" and other presumptive-type rules, which propose to abandon the rule of reason and to limit corporate size and the growth of conglomerates via merger by the use of fixed rules that presume monopoly if certain structural conditions are met. Although the 1981 changing of the guard in Washington makes these particular policy questions less timely, the issues are certain to resurface with swings in the political tide.

The work is provocative because the papers challenge the reader with unanswered questions and leave a clearer picture of the areas of conglomerate merger research most compelling and most likely to be fruitful.

The analysis raises such questions as, Does a conglomerate firm, by virtue of diversification, derive market power over products and markets? Does conglomeration create a "deep pocket," engendering a competitive advantage over small firms simply because of large absolute size? Does a conglomerate firm gain relatively greater political power than other smaller or less diversified firms, enabling it to be more successful at obtaining "producer protection" legislation? What are the merits of presumptive legal rules which define mergers as per se illegal on the a priori basis of the sizes of firms involved?

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The editors also ask the much more theatrical question of whether this form of business organization poses ". . . a unique threat to the free enterprise market system and a threat to democratic governments."

Not surprisingly, the papers provide few answers to the issues raised; but they are successful at assessing the literature critically and examining motives for adopting multiple unrelated product lines. In combination, the papers leave the reader uneasy about the appropriate definition of conglomerate. Many of the contributors clearly have different concepts in mind. Despite this ambiguity, the economic analysis throughout the book is consistent with the palatable notion that the purchase of another company is an investment decision to which the basic principles of capital investment decisions apply. In the absence of intervention or policy constraints, markets for companies will behave very much like markets for other assets, goods, and services. One of the strongest features of the symposium is the careful discrimination between theoretically sensible motives for conglomerate merger and theoretically dubious ones.

The policy concerns raised by the symposium are less satisfactorily dealt with. Ostensibly, fear of conglomerates stems from the notion that excessive size (and perhaps wide product and geographic diversification) will give a company the power to harm smaller competitors and impede the functions of a political democracy. According to symposium participant William Comanor, conglomerate mergers pose an efficiency-equity trade-off in the spirit of the Jefferson-Hamilton debates: Political democracy is threatened by a skewed distribution of economic power, suggesting that any possible efficiency gain may not be worth the social cost. "Small is beautiful" may appear a cliché in the 1980s, but the issues are well placed in this context, although the evidence concerning the effects of conglomerate merger on political democracy is so scanty one can hardly base an opinion on anything more than conjecture.

There does appear to be a consensus among many of the participants that the competitive impact of conglomerates is not a problem. Conglomerate mergers and acquisitions occur because they are profitable exchanges for the parties involved. What, then, are policymakers concerned with? If negative externalities or deadweight losses are generated by these exchanges, they have not been carefully exposed either theoretically or empirically. This leads to the most serious flaw in the execution of the symposium: lack of precision in defining what the conglomerate problem is. Several of the discussants complain of this as well. Peter Steiner, paraphrasing Richard Schmalensee's comments, claims that debate over what the appropriate solutions to conglomerates might be is not very useful since it is still a ". . . debate in search of a problem."

The book is a good first step in collating available theory and evidence and in setting out issues. The debate to which the reader is treated clearly calls out for rigorous welfare analysis to determine the magnitude of the social costs of conglomerate mergers. Without such analysis, the problem is faceless, and it is impossible, a fortiori, to judge sensibly the merits of the presumptive rules advocated to restrict the role of conglomerates in American industry.

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