

MONOPOLIES AND MERGERS POLICY : A VIEW ON
THE GREEN PAPER*

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* This paper reflects, at least to some extent, the research reported in Mergers and Economic Performance (1979). The concluding chapter in that book, which makes suggestions about merger policy, was written with Paul Stoneman. Thanks are due to Grahame Walshe for providing me with some thoughts from his work in progress.

This paper is circulated for discussion purposes only and its contents should be considered preliminary.

The recent Green Paper, A Review of Monopolies and Mergers Policy: A Consultative Document (1978), after presenting the theoretical arguments and the empirical evidence relating to monopoly and merger, comes to the conclusion that only minor adjustments in policy are required. On mergers it proposes a neutral approach, as distinct from the current presumption in favour of mergers, and on monopoly policy it suggests that consideration should be given to extending the scope of investigations to include oligopoly and to legislation directed against various monopoly practices which the work of the Monopolies Commission has revealed to be both fairly general and against the public interest.⁽¹⁾ Thus policies which are at present essentially permissive, certainly in the case of merger, arguably in the case of monopoly, are to be tightened-up slightly.⁽²⁾ The central question we seek to answer is whether or not such conclusions are reasonable in the face of the evidence. Questions will also be raised about the treatment of evidence in the Green Paper; about some of their own analysis and about the strategy followed in considering what might have been fundamental changes in public policy towards monopoly.

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- (1) Of these recommendations, it is undoubtedly the case that the authors feel the one on merger policy is the important one.
- (2) Less than 3% of mergers which could have been referred were actually referred to the Monopolies Commission. The Green Paper argues that "... the very existence of legislation may have deterred others...", but given the referral rate this cannot be taken very seriously. On monopolies the Commission has a rather spotty record. In some cases very high profit rates may have been considered acceptable (e.g. Breakfast Cereals and Detergents) but in other cases the Commission has grasped the nettle and made rather stringent recommendations. In most cases these have remained as recommendations (e.g. witness the severe dilution of the recommendations made in the case of the cellulosic fibres monopoly, Courtaulds). The report does not really address itself to policy on restrictive practices, although it does express passing concern with the exposure in recent years of a whole series of unregistered, and therefore unlawful, agreements. To the extent that there is no incentive to register, in fact there is a positive disincentive - given there are no penalties for not registering and potentially some gains, then existing restrictive practices legislation should also be considered permissive.

There are various possible approaches to the problem of the control of economic power. Preventative measures, such as structural policies (e.g. mergers policy), may be available to control its emergence. If such structural policies are not ruthlessly pursued, then we are left with the possibility of modifying the behaviour of the organization possessing economic power by imposing and enforcing rules. Profit rate control, price control, advertising control, would be cases in point. If such rules proved unsatisfactory then a reversion to a more structural approach (e.g. divestiture or mitosis) would be a possibility. Alternatively a behavioural change may be sought via public take-over, either of the industry or of a firm or firms within an oligopoly group.

Given that the regulation of firm behaviour poses severe problems,⁽¹⁾ and given that public take-over is no obvious or immediate solution to the monopoly problem,⁽²⁾ even if politically feasible, then it follows that structural policy has a potentially significant role to play in controlling the emergence and impact of monopoly power in the economy. If we put the question of divestiture on one side for the moment, and the authors of the Green Paper are only too willing to do this, then we are left with a requirement for an active anti-merger policy if we are to begin to control the extension of monopoly power. However, while in the case of large economies, like the United States, there may be little to lose from such policies in terms of static or dynamic efficiency, in

(1) This is perhaps not the place to go into detail about the issues raised in the regulated firm literature. Suffice it to say that attempts to regulate behaviour will generate responses by firms which may not be socially optimal. If an assumption of stockholder wealth maximization is plausible then regulated profit rates will generally lead to over-investment; under managerialism the firm will react by raising expenditure on those items for which managers have a positive preference. The tighter the control, the bigger the distortions.

(2) This does not, of course, imply that social ownership of the means of production is not desirable, it simply means that the problem of monopoly remains in such a world. The fact that the Post Office is currently making substantial profits may be an example of the problem that remains.

the case of smaller economies attempts to maintain relatively deconcentrated structures may be faced with substantial social costs.⁽¹⁾ To put the issue another way, merger activity leads with certainty to the acquisition of economic power but this may be balanced by the possibility of real resource savings. This requires us to know more about any cost-savings which might have resulted from merger and provides a justification for the empirical work on which various economists have been engaged.⁽²⁾

The empirical evidence concerning the efficiency gains from merger of which the Green Paper reviews that for the U.K. which has already been published, is very consistent. The general picture is one in which it is difficult to sustain the view that merger is in fact a necessary or sufficient condition for efficiency gain. The published studies for the U.K. culminating with the recent work by Meeks (1977) all relate to some measure of profitability and demonstrate that merger was generally consistent with either no change in profitability or with its decline. These results are also consistent with those obtained for the conglomerate merger wave of the U.S. in the 1960's, which have been recently surveyed by Mueller (1977). He concludes that for the U.S., "mergers ... have on average not generated extra profits for the acquiring firms, have not resulted in increased economic efficiency." It is also interesting to note that Stiglers' (1950) investigation of the earlier merger waves in the U.S. led him to conclude that they were motivated by the desire for monopoly

(1) We are obviously not talking about an attempt to maintain a more-or-less competitive economy. Rather, we are talking about trying to curtail processes which could lead to the virtual monopolization of large sectors of the economy.

(2) Following Tullock (1967) and Posner (1975), it could be argued that all the gains implicit in merger will be exhausted by the competitive process for the acquisition of these gains and therefore there is no trade-off, in which case mergers involving the acquisition of economic power could be regarded as unambiguously bad. However, the competitive process involved is, in itself, likely to be very imperfect and thus the most likely case might involve only a partial exhaustion of the possible gains.

power, rather than by questions of efficiency.⁽¹⁾

Given that, at best, merger will leave economic power unchanged, the more recent observations on the average decline of profitability following merger must be construed as a strong indication of declining efficiency.⁽²⁾ However, studies of profitability may only be revealing the tip of the iceberg. Given that most mergers in the U.K. have been horizontal, it is reasonable to suppose that monopoly power has generally increased and, therefore, that profitability may have been to some extent sustained by this. Thus in the case of merger leading to declining profitability, the decline in efficiency may have been greater, and in the case of no-change or improvement in profitability, there may still have been an efficiency decline.⁽³⁾ A forthcoming book (Cowling et.al 1979) reports on attempts to decompose changes in profits following merger into efficiency and market power effects. The message is the same - in general there is no evidence of significant efficiency gain following merger. Usually there are efficiency losses in the years immediately following merger, which might be regarded as transition costs, but these were generally uncompensated by subsequent efficiency gains which would not have been realized anyway.⁽⁴⁾ The case

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- (1) Apparently, and depressingly, the economics profession at the time were convinced by efficiency arguments. Stigler remarks: "Economists as wise as Taussig, as incisive as Fisher, as fond of competition as Clark and Fetter, insisted upon discussing the (merger) movement largely or exclusively in terms of industrial evolution and the economies of scale."
- (2) The remaining doubt would be that managers may be translating efficiency gains into managerial income, in the broadest sense. As far as stockholders are concerned, this could not be considered an efficiency gain (unless stockholders are also managers) but as far as society is concerned, and insofar as these effects are concentrated in overheads, the question resolves into a distributional one. Output is being produced with fewer resources but a particular group, not necessarily profit recipients, are getting the goodies. This of course, reveals a major objection to studies of profitability. Efficiency is being measured by reference to the income of a particular group rather than by reference to output or incomes of people in general.
- (3) It must be said, however, that Meeks (1977) did go some way in handling this problem.
- (4) There were one or two cases where efficiency gains did follow merger, these cases being where superior management gained control over more resources. However, our results suggest that mergers based on such reasoning were probably more likely to fail than to succeed. The creation of British Leyland and G.E.C. both involved mergers based on such reasoning and both were supported by the I.R.C. on these grounds.

studies also revealed that mergers can result in (a) less product variety (Brewing); (b) no observable increase in technological progressiveness (I.C.L.); (c) labour displacement in areas without immediate employment possibilities (G.E.C.); (d) no apparent improvement in international competitiveness or export performance (Machine Tools, T.V. sets, and Ball-bearings).

Given the potential social costs implicit in the acquisition of market power, which recent work indicates can be substantial,⁽¹⁾ and the general absence of efficiency gains, in the broadest sense, the evidence of the merger wave in the U.K. in the nineteen sixties would appear to argue against allowing mergers, especially those generating very large firms, to proceed without significantly more control than has been exercised in the past. If increased social welfare is equated not only with greater output but also with a more egalitarian distribution of income, wealth and power then this view would be strengthened since merger involving the acquisition of monopoly power will result in a redistribution of income in favour of the recipients of profits, whether they be stockholders or managers, and economic power more generally will result from the pooling of assets irrespective of its impact on the degree of monopoly.⁽²⁾ If one considered a total ban on merger this would have the additional beneficial effect of shutting-off an obvious avenue for circumventing restrictive practices legislation and would, therefore, contribute to the efficiency of existing legislation. To many observers such a policy may appear unreasonable - why not let the Mergers Panel or the Monopolies Commission assess each case on its merits? Surely it is irrational simply to apply a blanket refusal? My first response would be that the evidence really does not support this view. The evidence suggests that bad decisions have been made in the past - mergers have been allowed

(1) Cowling and Mueller (1978). The conventional wisdom that monopoly welfare loss is of no consequence is based on previous estimates going back to Harberger (1954), which were subject to biases which implied a considerable understatement.

(2) Truly conglomerate mergers, with no direct market power effects, although increasing in importance recently, have been the exception historically in the U.K. The U.S. experience (Mueller (1977)) suggests that conglomerate mergers offer little prospect of efficiency gain.

which in some cases have been disastrous and in other cases have simply allowed the emergence of substantial monopolies without any significant benefits. More fundamentally the whole approach has been biased in favour of acceptance since the parties involved have not been required to demonstrate that social benefits will result. Even if they were there is apparently no institutional mechanism available for reversing the process, which civil servants are willing to contemplate using, should the outcome be found to be against the public interest. The implication is that the array of policy options should be confined to a range, with an onus of proof on the merging firms to demonstrate social benefit at one end defining the mildest policy, and an outright ban at the other end defining the toughest policy. Within this range a variety of types of ban could be defined which might reasonably relate to the size of firms involved and their joint market share.

As noted earlier, attempts to control firm behaviour are likely to lead to responses involving socially wasteful expenditures (Tullock (1967), Posner (1975)). Thus if the merger is important to the firms involved,⁽¹⁾ and the evidence suggests this would not be for reasons of efficiency, then considerable effort will be expended in convincing the appropriate group, whether "sponsoring department",⁽²⁾ Mergers Panel or Monopolies Commission, that it is indeed in the public interest, this effort being in addition to the private effort involved in the market operations to secure the acquisition. Both forms of waste would be avoided by a tight ban on acquisitions. But what about the impact of a ban, or the prospect of a ban? Insofar as firms are restricted from doing what they would otherwise like to do, then it may be optimal for them collectively to invest in attempts to secure the removal of the ban. They would undoubtedly do this

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- (1) Stigler (1950) conjectures that a significant motivational force behind merger waves is the "merger promotions industry", given that its income is conditional on the intensity of merger activity. The emergence and dominance of the Slater-Walkers on the British financial scene of the sixties gives some credence to such a conjecture.
- (2) This always strikes me as an odd, and/or alarming, way of describing a department of state.

via, for example, C.B.I. lobbying, but this is unlikely to amount to significant wasteful expenditures - the only problem then being the resilience of the state in standing-up to such pressure. However, if the ban is accompanied with "let-out" clauses then each firm with a merger in mind will invest resources in convincing the appropriate authority that their case falls under at least one of these clauses. The looser the rules the greater the social waste.

However, even if strict controls were established over future mergers, such that only a minority were allowed, this would still leave a highly concentrated industry structure, the legacy of the permissive merger policy of the past. A hard-line merger policy, although important, would still have to be seen as peripheral to the central issue of monopoly power in the economy. Recent evidence consistently suggests that there is little to be gained by increases in the size of individual corporations, but potentially much to be lost.⁽¹⁾ Given this, the question of divestiture, which is rapidly put on one side in the Green Paper, has to be raised. The presumption in the Green Paper is that it is "... unrealistic in practice to think of breaking-up a large company...", and yet it is clearly within the power of ministers to order such action. One might ask in what sense is it "unrealistic", and who is to decide that certain opportunities available for remedial action can be safely ignored? But this is only one possible response by the state to the emergence of a position of substantial economic power. There may be situations where divestiture is not desirable, in which case we have to consider controls over the behaviour of such organizations. Despite the problems raised by the sometimes wasteful responses to attempts to regulate behaviour, the social costs of unregulated behaviour may be such as to require some control. Despite the existence of institutions like the Monopolies Commission

(1) It should be noted that there is some evidence that growth via external acquisition is different in terms of its efficiency implications than is internal growth. Firms which grow via merger appear to have lower rates of real investment and lower rates of innovation, see Mueller (1977).

and the Price Commission there would seem to be compelling arguments for an additional institutional framework for the regulation of major centres of economic power. A necessary condition for concern with the question of monopoly power is that the welfare implications are, at least potentially, significant. The results of Cowling and Mueller (1978) suggest that this is the case, at least for the corporate sector in the U.S. and U.K. However, even if it is accepted that monopoly is at least a potential threat, that still does not justify an extension of the existing set of institutions. Such justification comes from perhaps three lines of argument. First, given that major private centres of economic power exist society needs an institution to keep such organizations under continuous observation and control. The present system patently does not allow this. The Monopolies Commission can only take sporadic snap-shots of the market for particular products and make recommendations on the basis of these. There is no formal mechanism for monitoring the response by the company to recommendations which are accepted by the government. Neither is there any way in which the public regulatory system can systematically accumulate experience concerning the multifarious activities of major monopolies. Without continuous observation and access to internal information society will never be able to effectively control the behaviour of such companies.⁽¹⁾ Related to this point, the second line of argument concerns the regulation and control of the corporation as a whole. It is not sufficient to look at a specific corporation's activities in a variety of markets as if they are additive in terms of the corporation's aggregate economic power. The general case is one where interdependencies between markets are significant and the ultimate power of the giant corporation as a financial institution can be decisive in estab-

(1) This has probably now been belatedly recognized in the case of the oil industry where B.N.O.C. is to some extent filling this role and making the running on the government side over the scandal of taxation, or the lack of it, of North Sea oil.

lishing positions of dominance in a variety of markets.⁽¹⁾ The third line of argument is a political one. Existing institutions like the Monopolies Commission and Price Commission make recommendations directly or indirectly to the relevant minister. In most cases, this means negotiations between the government department, currently the Department of Prices and Consumer-Protection, and the corporation(s) in question. This has generally led to considerable delay, and in many cases, a watering down of the proposals. Since, as will be argued later, there is a basic assymetry in the representation of conflicting interests within Whitehall, it would appear to be in the public interest to bring more of the evidence and discussion into the public arena. The appropriate response to these three strands of argument would seem to be standing parliamentary committees allocated to say the ten major corporations. Such committees would provide continuous surveillance of the major private centres of economic power and would allow for the growth of experience and expertise in the affairs of such corporations by both parliamentarians and their staff.⁽²⁾ Most of their activities could be open and public and they would provide an effective countervailing power to the pressures put on departments. They would, of course, be subject to pressures themselves, but operating in the public eye and with parliamentary responsibilities may provide at least a partially, effective antidote. As a first shot Cowling and Mueller's top ten, in terms of estimated social cost, might form a basis for discussion. They are, ranked by estimated social cost, B.P.; Shell; British-American Tobacco;⁽³⁾ Unilever;

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- (1) Interestingly the Green Paper examines proposals for company investigations by the Monopolies Commission but decides against them, apparently because such inquiries could not lead to effective remedial action! In other words they prefer not to know about problems given that they are unwilling to recommend remedial action. Note that the authors of the Green Paper, as previously mentioned, rule out divestiture, despite the fact that it is clearly available to ministers.
- (2) This would not be a substitute for the social ownership of these companies, but neither would the need for such regulatory bodies disappear after public takeover. Control over the bureaucratic competition for monopoly rents would remain a desirable objective.
- (3) B.A.T. operates mainly outside the U.K. Its presence is such a list would have to be justified on international rather than domestic criteria.

I.C.I.; Rank Xerox; I.B.M. (U.K.); G.U.S.; Beecham and Imperial.⁽¹⁾ Although many important corporations will always be left out of such a list, nevertheless effective policing of the top-10 will tend to have substantial spin-off effects and the ultimate coverage of such control mechanisms will be much wider than the initial group of ten corporations.⁽²⁾

Thus our reading of the evidence in the case of mergers and monopoly had led us to conclusions and recommendations which are at variance with those contained in the Green Paper. The Green Paper asks for only minor changes in the existing policies whereas this paper argues for a strictly interpreted ban on mergers and standing parliamentary committees for monitoring the largest corporations, leaving the other control agencies to provide sporadic checks in other cases of suspected monopoly behaviour. Why should the two sets of conclusions differ so markedly? There are a number of points which merit discussion.

First, the reporting of evidence in the Green Paper seems rather unsystematic and subject to bias.⁽³⁾ Studies of structure - performance relationships for the U.K. get short-shrift - a single reference to an unpublished paper by Gribben (1977), plus an aside on Phillips (1972). Compared with this, the discussion of "Economies of Scale and Learning Effects" (Annex C) seems

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- (1) Note that membership of the list implies a high level of profits and/or a high level of advertising - it does not imply that these corporations are less technically efficient than rivals; indeed, it obviously could imply the reverse. However, technical efficiency and considerable social cost can co-exist in the case of monopoly. Nevertheless, some attention should be given to the candidature of large corporations which are unprofitable because they are inefficient. The major banks, not included in the Cowling-Mueller study because of data problems, would also be prime candidates.
 - (2) The effectiveness of such an institution will obviously be conditional on full access to information within the specific corporation and on efficient, professional staffing.
 - (3) Given the three-month deadline the group was working under, this is not unexpected, but it does raise the question of whether such an important issue should be resolved in such a short period, and it leaves the construction of the report as an entirely internal affair for the wrong reason.

positively indulgent! The Boston Consulting Group gets copious references to some unpublished paper and also has ten exhibits published, covering six pages of the report, without explanation. The exhibits look to be full of mistakes and also of doubtful relevance. They are apparently aimed at demonstrating the relationship between unit costs, "... often measured for convenience in terms of prices..." (!?) and cumulated production. A couple of examples: Exhibit 2 relates to Bottle Caps (West Germany) and derives a relationship from five observations, 1971-1974 and 1975 E (?); Exhibit 6 relates advertising per case (U.S. 1974) to production (not cumulative production) for such things as Dr. Pepper, Tab, and S.F. Dr. Pep (?) - perhaps not exactly the evidence that should take precedence in a rushed evaluation of merger and monopoly policy for the U.K.?

A second point is the political character of the report. It obviously represents a splicing together of the conflicting interests of different departments - some believing in competition and others believing in economies of size - bigger means better. Thus, despite the fact that the evidence on merger points unambiguously toward a decline in efficiency, the report still includes remarks about the possible increases in efficiency in its conclusions. There is an obvious reluctance to accept the evidence when it conflicts with prior prejudices. There is also an obvious reluctance to accept the case for a radical change in policy when faced with overwhelming evidence in favour. More rigorous policy alternatives are briefly considered and rapidly dispatched. There is no attempt to offer ministers a menu of alternative policies, indicating their essential properties. Rather, the aim appears to be to drastically narrow down the options until only one course of action is left open and that specific course of action represents a mild adjustment to existing policies. Surely, since this analysis comes prior to political discussion, the function of an internal group of civil servants is to offer alternative courses of action in as objective a way as possible. The mildest, alternative policy,

consistent with the available evidence, would involve the shifting of onus of proof regarding efficiency onto those proposing merger. It is a mild policy because companies will, of course, present a compelling case if the private benefits of merger are considerable. Thus, the tendency would be to accept mergers which are privately beneficial, given that the regulator will never fully be able to assess the information presented. In addition, there is no system of monitoring subsequent performance and also a declared unwillingness to undertake divestiture proceedings, at least on the part of civil servants, and perhaps generally within the state given that none have ever been initiated, despite a queue of possible candidates. In spite of the mildness of such a policy it is disregarded with arguments about excessive administrative costs and the deterrent effect it would have on desirable mergers. The second argument is implausible and the first just cannot be accepted if we take the subject at all seriously. It is inconceivable that investigation costs will be anything like the same order of magnitude as the potential social costs of major amalgamations of corporations.⁽¹⁾ A ban on merger is not even discussed.

The permissiveness of the internal view with respect to merger and the unwillingness to contemplate possibly more effective institutions to monitor monopoly behaviour may be partially explained by the existence of "sponsoring departments" within the state. At first glance it may seem reasonable. Why shouldn't industry's case be represented within Whitehall? Perhaps three points can be made. (a) Why not make it openly as written or oral submission to the Mergers Panel or the Monopolies Commission, then everyone can see clearly where the view of vested interests is being put. (b) If the bureaucracy is to act for specific vested interests, then advocacy must be seen to be balanced and equitable. Patently this is not the case. Although industry is in constant

(1) If a large corporation were proceeding by a series of small acquisitions, a clear judgment on the first would be sufficient.

contact with its "sponsors" the same cannot be said for consumers. Some might argue that the office of Fair Trading (O.F.T.) and the Price Commission take on the role of consumers' advocate, but this is not the view taken by the former Director of the O.F.T. (Mr. Methven) who made it quite clear that he did not regard himself as taking on such a role, but rather that of a referee, trying to balance out the interests of industry and the consumer. Not only does this result in a basic asymmetry, it would also seem an inappropriate stance for such a department. But even if the new Director were to regard himself as the consumers' advocate, there would remain a basic asymmetry given the fact that final consumers, individual households, are obviously not organized or represented in as efficient a manner as is "industry". This becomes more and more the case as industry becomes more and more concentrated. The bigger firms become, the more dominant they are within individual industries, the more incentive they have to represent industry's view, in aggregate or as a specific industry. The benefits from lobbying activities accrue more completely, and more directly, to the firm in question, the bigger or more dominant is that particular firm. The last point, (c); should sectional interests be represented through the bureaucracy? It would seem preferable that this should come via parliament, with the civil service aiming at an impartial view. Even though this may be almost impossible to achieve it should remain an objective and sectional interests should not be allowed to become embedded within the civil service.

Another factor which may contribute to the explanation of the apparent discrepancy between observation and inference is the reference in the Green Paper to the possibility that measures of concentration may be very misleading in an open economy like the U.K. The report purports to adjust the conventional estimates of concentration for both exports and imports and comes up with estimates which are much smaller than the unadjusted concentration ratios, and in some cases the difference is enormous.⁽¹⁾ If meaningful, this adjustment must

(1) In the case of Photographic Equipment (Table 9: Appendix A) for example, the five-firm concentration ratio goes from 82% to zero!

radically change our view about concentration in the U.K. economy, or at least within the manufacturing sector.⁽¹⁾

We must recognize immediately that the big differences arise, contrary to the clear impression given in the Green Paper, purely from the incorporation of imports into the calculation. This is because of the crucial assumption they make that the proportion of exports made by the top five (or six) firms in each industry is the same as their proportion of domestic production. Therefore, ignoring imports, their formula (see Table 8, Annex A) is simply $[Y_5 - (Y_5/Y) X] / (Y-X)$, where Y_5 is the output of the top five-firms, Y is total domestic output, and X is exports. It is easy to show that this is simply Y_5/Y , the unadjusted concentration ratio.⁽²⁾ Unless they looked closely at how the adjustment was made, people reading the report may have been misled into thinking that part of the substantial apparent reduction in the estimates of concentration may have been due to the incorporation of exports.

Recognizing that the introduction of exports will not influence the outcome, the formula used in the Green Paper reduces to simply $Y_5/(Y + M)$, where M is imports. The critical assumption here is that imports are not controlled in any way by the top five firms in the industry in question. This implies immediately that the incorporation of imports will reduce the concentration ratio, the higher the level of imports, the bigger the difference between adjusted and unadjusted ratios. The Green Paper, while recognizing that this may be a problem, concludes that the "... assumption is probably a fair one in the case of the majority of finished goods at the time in question, 1972". (p.57). Let us therefore, examine the justification for this statement.

(1) It must, of course, never be forgotten that much of the economy, and certainly most of it outside manufacturing, consists of non-traded goods and therefore estimates of concentration, which are not usually readily available, will be unaffected by foreign trade. Manufacturing output was only 27.9% of G.N.P. for the U.K. in 1976!

(2) $[Y_5 - (Y_5/Y)X] / (Y-X) = Y_5(1-X/Y) / (Y-X)$.

∴ $Y_5(1-X/Y)Y / Y(Y-X) = Y_5/Y$.

Firms can get involved in selling imported goods via a variety of arrangements: (i) buying and reselling without fabrication, (ii) buying and reselling after fabrication (strictly the intermediate goods case, but they are often classified to the same industry and need therefore, to be recognized), (iii) the domestic firm may act as an agent, or the agent, for the foreign supplier. In both (i) and (ii) the transaction can be either (a) inter-firm or (b) intra-firm (the multi-national case).⁽⁰⁾ In the case of inter-firm transactions (i(a)) and (ii(a)) the domestic firm may have a franchise arrangement with the foreign supplier giving sole control in the domestic market.

Having identified ways in which domestic firms may involve themselves in the import of goods they also produce, the real question is whether or not the largest firms may be involved and indeed may be disproportionately involved. Some systematic data on this question is provided in Walshe (1974).¹ Of the forty-four monopolistic or oligopolistic industries he examines, thirteen have significant import shares but on further examination only four industries remain with significant import competition. Seven of the others were cases in which control over imports was vested in domestic (usually dominant) firms and the other two cases, Fish Oils and Sugar, were where imports were unrefined and had to be processed by the domestic monopolies.⁽¹⁾ We might deduce from these results that of the 54 industries identified in the Green Paper (see Table 9: Appendix A) as having concentration ratios significantly reduced by "foreign trade" perhaps more than two-thirds of them may need reclassifying.⁽²⁾ This would

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- (0) It has been estimated that multinational firms now control 50-55% of total world trade, see United States Senate, Committee on Finance (1973).
- (1) It is interesting to note that Sugar is one of the industries identified in the Green Paper as showing a big change in concentration ratio after adjustment of "foreign-trade" (from 98% to 65%).
- (2) A casual inspection of Table 9 reveals many candidates for reclassification. Mineral Oil is a similar case to Sugar, with imports of unrefined crude by the major domestic refiners. Aluminium, Computers, Photographic and Document copying, Tractors and Man-made fibres are all cases in which imports are controlled by the dominant domestic firms. Vegetable and Animal Oils and Fats are largely intra-firm transactions. Mining and Quarrying and Wines, Cider, etc. could be very misleading because of the different product coverage of imports and domestic production. The list clearly warrants systematic and detailed attention.

leave roughly 18 industries, out of the original list of 144 which the Green Paper works with, significantly affected by import competition. Two additional points should be made. First, as imports increase in importance, so it becomes a matter of increasing interest to domestic firms to obtain some element of control, witness the response of Courtaulds to the advent of E.F.T.A. (Monopolies Commission (1968)). And, second should external suppliers gain control of a market the issue of monopoly power remains. It is interesting to note that this has happened in the case of one of Walshe's four industries that experienced significant import competition, namely Motor Cycles, and it is also true of the most outstanding example of reduced concentration following "foreign-trade" adjustment in the Green Paper, namely Photographic Equipment.

I would conclude from the above discussion that the relationship between the degree of monopoly in the domestic economy and the level of imports is a complicated one and that the conventional wisdom, echoed in the Green Paper, can be very misleading. (1) The evidence currently available does not justify the rather complacent inference that : "In view of the post-war growth in international trade, it cannot, be concluded that the increase in the concentration of domestic output has led to a corresponding reduction in competition" (para. 3.12 Green Paper (1978)).

The general conclusion on the Green Paper must be one of missed opportunity. The main reason for the report had to do with the dismal record of the giant corporations conceived in the merger wave of the sixties. The evidence is unambiguous and compelling, the inference being that society should seek to operate vigorous control over a process which has led to a series of unfortunate effects. In response to this situation the Green Paper

(1) The recent study by Hitiris (1978) can be faulted on a number of grounds, but it is perhaps sufficient to point out that inter-industry relationships between profitability and effective tariff rates are unlikely to be meaningful without recognition of transportation costs. Other studies have shown no relationship between import share and profitability (see Khalilzardeh-Shiraz (1974) and Dutton (1974)).

advocates neutrality ! Even if a more stringent view were to be taken, we would still be left with vast bastions of economic power about which we have little knowledge and even less control. Despite the lack of suggestions from the Green Paper, it is to be hoped that Ministers will give urgent attention to establishing parliamentary institutions to provide continuous surveillance of the major private centres of economic power in the country, the giant corporations.

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