Introduction

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Competition is a constitutive element of a market economy. It follows from the right of each individual to pursue his or her own interest. Therefore competition policy – or antitrust, as it is being called in the US – is a cornerstone of economic policy in a market economy. In the history of ideas, competition policy as a salient feature of a free society can be traced back at least to John Locke (1690) who propounded that everybody has the unalienable right to pursue his or her own happiness. This idea found its way into the legislation of the US by the Sherman Act of 1890 which prohibits restraints of competition in most general terms. This legislation found hardly any support among economists. It was only with the 1930s that economic theory began to furnish theoretical support for competition policy. Since then quite a lot has been accomplished in this direction. Today, in the US antitrust has come to rely to a substantial degree on economic theory, and in the EC competition policy a ‘more economic approach’ has increasingly won ground. This Handbook is intended to provide a scholarly review of the state of the art regarding principles of economic theory, empirical evidence and standards of evaluation in a way accessible to a wider audience.

WHY COMPETITION POLICY?

Unfettered competition of countless individuals has been widely considered as giving rise to warfare, a struggle of everybody against everybody (Hobbes 1588–1679). This idea was echoed by Eddy (1912) who bluntly stated that ‘competition is war, and war is hell’. By contrast, the notion of markets being necessarily chaotic has been successfully refuted both by economic theory and experience. The question then arises what framework to be established by government is required to avoid Hobbesian chaotic struggle. Although the competitive process is likely to yield increasing wealth for the entire economy it also implies what Schumpeter (1942) called ‘creative destruction’. Individual competitors may thus be driven from the market because innovations make incumbent products and processes obsolete. From the viewpoint of ethics, limits on the pursuit of one’s own happiness are required insofar as they must not deprive
others of their freedom or impede their efforts to obtain it (J.S. Mill 1861, p. 22). Accordingly, the competitive process should be governed by fairness so that malicious intent to destroy competitors should be prohibited.

PERVASIVENESS OF RESTRAINTS OF COMPETITION

Even though competition is the most effective way to improve the well-being of people in the long run, for an individual the absence of competition may, in the short run, be preferable. The alluring prospect of a quiet life has given rise to widespread attempts to restrain competition. As observed by Adam Smith (1950, vol. I, p. 144), ‘People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or some contrivance to raise prices.’ This observation for the time of Adam Smith has been amply corroborated by Ashton (1964) in his treatise on the history of the Industrial Revolution in England. The same story is told by the history of cartels before the advent of antitrust legislation towards the end of the 19th century in the US, prior to World War II in Germany (Neumann, 2001), and in England before the legislation prohibiting cartels in 1956 (Symeonides, 2002).

THE CHALLENGE OF GLOBALIZATION

It will be recalled that more than 100 years ago, the emergence of giant firms during the later decades of the 19th century gave rise to gloomy predictions regarding the viability of a competitive economy. Even though the predictions of Karl Marx and his followers of an ever-increasing concentration and the eventual demise of capitalism have not come true, in most countries horizontal concentration has increased, giving rise to widespread concerns. The rise of horizontal concentration at the national level has been offset by the enlargement of the relevant markets. Moreover, to a large extent concentration has been caused by technological factors and thus appears inevitable. On the other hand in quite a few cases technological trends favouring large size have been overturned by the emergence of technologies which allowed the survival of small- and medium-sized firms. In response to a changing environment and to utilize technological opportunities, mergers and acquisitions may be undertaken to reorganize industry structure. Higher profitability may be expected from raising efficiency in production by utilizing economies of large scale or from product
innovations. Thus mergers and acquisitions may be undertaken to raise efficiency or to enhance monopolistic market power or by both.

EFFICIENCY VS. EQUITY

Since the competitive process, although beneficial overall for the entire economy, entails winners and losers, competition gives rise to distributive concerns which call for government interventions to correct the outcome of markets. Competition policy is no exception. Therefore antitrust is presumably the most politicized field of law. Terms like ‘monopolize’ and ‘substantial lessening of competition’ are not self-evident but need interpretation. Interpreting and evaluating the outcome of the competitive process leaves a pretty wide field.

Therefore the editors entrusted the authors of this Handbook with how to approach the various topics in their own way and how to evaluate them as part of competition policy. Chapters 1–5 are primarily concerned with providing theoretical insights and reporting empirical findings. Chapters 6–12 are devoted primarily to policy.

BIBLIOGRAPHY