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Presentation Title

Countervailing Power

(with Simon Loertscher)

Abstract

Merger defenses based on countervailing power stipulate that mergers on one side of the market increase social surplus by offsetting power on the other. Despite its popular appeal, countervailing power has proven controversial and difficult to formalize. We provide an incomplete information bargaining model in which horizontal mergers can increase social surplus by equalizing bargaining weights. Moreover, horizontal mergers can harm rivals; a presumption that vertical integration is socially beneficial has no basis; bargaining breakdown occurs on the equilibrium path; and non-contractible investments are efficient if and only if bargaining is efficient. The model naturally gives rise to bargaining externalities.

Keywords

Price formation, bargaining power, productive power, vertical integration, investment incentives

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