

A Preliminary Response*

Oliver E. Williamson†

I welcome this comment by Professors Areeda and Turner. Although I disagree with most of it—partly for reasons of accuracy, partly for analytical reasons, and partly on grounds of operationality—I am pleased to see the issues aired.

The accuracy issues to which I object involve misstatements of my views and misleading choice of language. My main analytical objection is that static, nonstrategic, competitive arguments are applied uncritically to a situation where intertemporal, strategic, monopolistic factors are central. Efficiency claims on behalf of marginal-cost pricing that arguably go through in the former case simply fail to carry over to the latter. Unfortunately, moreover, the succession of efficiency errors that beset the Areeda-Turner analysis of predatory pricing is not offsetting. Notwithstanding intentions to use economic analysis dispassionately, the interests of defendants rather than of society are served by the mistaken rules that Areeda and Turner produce. Although the operationality issues that they discuss are real, I am not persuaded that the problems with the output rule are as onerous as they project, and I submit that difficulties with their price-to-cost test are understated.

It is thus doubtful that a tradeoff needs to be faced between better analysis and administrability. The possibility that the analytical superiority of my treatment of predatory pricing is more than offset by (comparative) difficulties of administration nevertheless warrants scrutiny. Until I have an opportunity to address these issues more fully, readers are cautioned that Areeda and Turner's analytical errors are not remedied by repetition and that Areeda and Turner have yet to confront predatory pricing from the standpoint of fairness. Given their silence on the latter issue, one can only conjecture that their failure to address the fairness aspects of predatory pricing is due to oversight, reflects a judgment that fairness is unimportant, or discloses an awareness that their cost-based rules are grievously flawed with respect to fairness.

* The comment by Professors Areeda and Turner arrived too late in the publication cycle to enable Professor Williamson to prepare a full response. This preliminary response identifies some of the major points of disagreement. A more complete analysis by Professor Williamson is in preparation. Professor Williamson invites those interested in receiving a prepublication copy of his response to send him a written request.

† Professor of Economics, Law, and Public Policy, University of Pennsylvania.