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CON GLOM ERATES

AND THE PUBLIC INTEREST

Extracts from a paper delivered at a conference on the legal-economic aspects of conglomerates, University of Chicago, October 17, 1969.

by Professor Peter O. Steiner

If by public interest we mean merely public curiosity, the answer to "What is the public interest?" is "considerable." The literature on conglomerates has expanded at least as rapidly as the conglomerates themselves and there is no shortage of policy prescriptions by economists, lawyers, and journalists. Indeed my concern has shifted from wondering if I could define the relevant issues to wondering if there is anything left to say. . . .

I take it we mean more by the public interest than mere curiosity. Elsewhere I have wrestled the definition of the public interest to a draw in 32 pages, and I will not repeat that exercise. But my central position is that a free people are free to define any areas of collective concern that they wish, using the political process and such limitations on majority rights as may previously have been established.

The implication of this view is that one must look to collective, subjective views as well as to objective facts in determining the public interest. It is more difficult to discern such views than to admit they may exist. One is tempted to avoid the problem either by delegating it to "responsible political officials" or by redefining the public interest to make it independent of attitudinal matters. While political officials are ultimately responsible to the people, they can misperceive public preferences or choose to bend them toward their own views of what is proper. Debate about the legitimacy and wisdom of public policy requires an independent determination of where lies the public interest.

If we cannot delegate the problem of determining the public interest, can we define our troubles away? A narrow view of the public interest in conglomerates would focus on the notion of economic efficiency. In this view the task of defining the public interest is easy in principle, if harder in practice. It involves listing all of the possible effects on efficiency of conglomerate firms (or of conglomerate acquisitions), evaluating the probability that they will occur, determining their sign (*i.e.*, whether they generate benefits or evils), and making enough of a quantitative reckoning to form a judgment about over-all effect. This is a formidable task, unless one further defines it away by assuming that any arrangement which is made freely and which survives may be presumed efficient. But it is a task for which economic and quantitative analyses are well suited. Happily such evidence is being sought. Quantitative analyses are important in progressing from the easy job of listing possibilities to the required task of estimating probabilities.

Having made a bow toward orthodoxy, let me state my heresy boldly: there is nothing inherently compelling about this narrow definition. People may and do care about other things. If by the public interest we mean something in which efficiency is but one element and in which such things as "size," "economic power," "fairness," "freedom," and "the quality of society" are also elements, we have a more formidable task of evaluation. We still require careful and ingenious identification and measurement of effects, indeed we require them more urgently. Nor is it acceptable to argue that most of these things are too difficult to measure and thus we have license to neglect them. To neglect them assigns their value as zero, and clearly there is no presumption for assuming that result here or elsewhere. But even if we solved all difficulties of this kind, we would need more—for instance how do we balance a "known" (and presumed beneficial) efficiency against a known (and presumed adverse) increase in economic power? Assigning weights is not a *measurement* problem, but a problem in social choice. Thus the questions of whether there is a "social view" of the proper weights, and if so how it is articulated and legitimized is of vital importance.

As an economist I will not refrain from dealing at length with the efficiency issues. But patently my assignment is broader. For although it is difficult to classify neatly the nature of public concern in the conglomerate phenomenon it is perfectly clear that it is not limited to efficiencies, competitive or otherwise, and the role of market structure therein. It is clear that even together, economists, lawyers, and businessmen engaged in or fearful of take-overs do not reflect the broader constituency that defines a clarion cry for public action. Whatever it is that motivates Mr. McLaren when he speaks of se-

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vere economic and social dislocations, it is clear that he believes he is responding to a basic political demand that someone do something about the new development. I am not concerned here with whether (as he believes) the antitrust laws are the appropriate vehicle, or whether (as his predecessors believed) the principal problems should be dealt with by other agencies or by new legislation. The issue, instead, is whether there is a perceived demand for *public* action, and if so what kind of response is appropriate.

With some risk of oversimplifying, the effects, the public concern, and the debate over required public policy (if any) can be grouped into four categories which I will designate as (1) financial-speculative; (2) entrepreneurial; (3) macro concentration and centralization; and (4) economic efficiency. I will speak about each at least briefly, but I note as a preliminary matter that most of the lay discussion and curiosity revolves around the first two and most of the professional discussion around the last two. This lends some diffuseness to the discussion of conglomerates. . . .

Financial-Speculative

Under this heading I would collect the fears that hanky-panky—if not outright fraud—is being perpetrated upon a gullible public by shrewd promoters, insiders, and speculators and that this is encouraged by public authorities through tax policies and in other ways.

These considerations apply almost exclusively to the financial aspects of mergers. My guess is that if there is an unambiguous, deep, and abiding unease in the public at large about conglomerate mergers, it arises here. Even those who may admire either the dynamism or the efficiencies of conglomerates tend to get apprehensive about phrases like "chain letter effect," "funny money," and "pyramidding of debt." Those who attack conglomerate mergers seldom fail to play upon these concerns.

Let me assume here (as I believe) that there is basis for some concern and that there is neither desire nor necessity to be bound by the rule of *caveat emptor* in securities transactions. The danger is that the response of the courts or the Congress no less than the Department of Justice may be to attack the phenomenon of the conglomerate merger rather than the specific practices which give rise to a legitimate public concern. An undiscriminating and vaguely articulated public dissatisfaction may legitimize an attack which visibly hits this target and less visibly hits the beneficial aspects of conglomerate firms as well. If there are financial-speculative problems, they are specific problems and they invite specific solutions. . . .

Let us suppose for the remainder of this paper that any financial or speculative dangers of conglomerate mergers can and will be remedied by appropriate specific policies. In so saying I do not wish to imply that all conglomerate mergers involve unfortunate financial manipulation, nor that that there may not be potential or actual financial benefits to society (some of which we examine below) in some conglomerate mergers.

But such part of the case against conglomerates that arises here seems quite separable, and clarity is achieved by separating it.

Entrepreneurial

Unlike the speculative-financial, the entrepreneurial aspects are neither separable nor necessarily adverse since they are concerned with the heart of the organism. For the conglomerate firm, if it is anything, is a firm with faith in the entrepreneurial function, with belief that management matters and that profits can be made by substituting "alert," "dynamic," "progressive" managements for stodgy ones. The contemporary conglomerate firm is not merely a relatively static sum of its individual parts; it is not a holding company in the conventional sense of that word.

Nor are these firms' entrepreneurs (in Schumpeter's sense) the relatively faceless organization men that we have come to associate with large companies. The personality cult of the conglomerators—the Ling's, the Geneen's, the Ash's, the Bluhdorn's that *Fortune, Time,* and even the *Wall Street Journal* and the *New York Times* profile with such attention and loving care—is characterized (in restrained moments) by phrases such as "exuberant," "dynamic," and "high riding." Compare: "quietly competent," "shrewd," and "imaginative," adjectives recently used to describe the new Ford troika. Whether there is a real difference underlying such semantics is incidental to me and I leave the matter to the psychologists. But the attitude of the press and the public *is* revealing. For if it is true, as I believe, that these men and their companies excite more admiration than apprehension on the part of the public at large, it argues against the existence of a latent demand for public action to close the outlets for the dynamism. I am not enough of a social historian to know when Vanderbilt, Carnegie, Ford, and Rockefeller, and others of those now called robber barons, were transformed from folk heroes into sinister oligarchs, but it is clear that such a shift did occur sometime after the era of Horatio Alger, and before the time of FDR—helped no little by

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Ida Tarbell, Upton Sinclair and by the crash in 1929. In the train of sharp public concern we have legislative and judicial response, not always in that order.

If there is today a widespread, or even emerging, concern with the multimarket *firm* (as opposed to *merger*) or its leaders apart from its financial aspects, I do not find it. What I am asserting here is that the public image of the conglomerate firm seems good; it is regarded as alive, alert, prosperous, and newsworthy, if also possibly a bit daring.

The conglomerate *merger* is more difficult to appraise in these terms. For the entrepreneurial personality vents its energy by acquiring as well as by reorganizing and it is clear that the announcements of take-over attempts, tender offers, or consummated deals all have impact effects of their own. I have read almost ad nauseum the vast coverage given to the struggle between Northwest Industries and Goodrich simply in an effort to decide whether the writers regarded it merely as a public entertainment or as a struggle between forces of good or evil. My own private survey at the height of this contest showed about a 60-40 split in favor of the incumbent Goodrich management, but I suspect this reflects admiration of a sturdy underdog more than a belief that Mr. Keener promised more to American society than Mr. Heineman. It is a different matter to care about the Mets and Jets than it is to use the police power to restrain Baltimore. But the contested take-over, like the proxy fight, is so far a rare if colorful event. The bulk of the great conglomerate merger movement of the 1960's has been privately uncontested, the result of discovery of mutually agreeable bases of exchange. . . . It is true that contested mergers are becoming more common, perhaps because of the demonstration effect of victories like Goodrich's, perhaps because of the courts, or perhaps because the mutually desired merger opportunities are being exhausted.

There are groups who regard the entrepreneurial firm with genuine apprehension. To some the spectre of take-over—sudden and sure—evokes a sinister law of the jungle. A recent Signal Company advertisement chose to put it: "If 'conglomerate' implies a profit-mad monster who gobbles up unsuspecting companies by means of underhanded tender offers, we do not qualify." Whether the prey of the acquisitive conglomerate species is small business or whether it is large business is an interesting and important question. It also matters whether the victims are the culls or the gulls of the business scene, for I take it that few would urge protection of the former.

One of the things we need is a thorough study of what the facts show about the nature of acquired firms in conglomerate mergers, classified in a number of different ways. I suspect that if there is a severe threat of take-overs opposed by the management of the acquired firms it is against large and perhaps stodgy managements rather than small ones. While most acquired companies are indeed small, how many were active participants in the search for merger partners? I suspect most.

In sum, absent financial abuse and ignoring competitive and efficiency considerations, I detect none of the broadly based public concern that would, if it existed, provide a clarion call to action by the public authorities against the market phenomenon of the conglomerate firm. There are here, as always, firms and individuals who get hurt, and they understandably seek redress through political action. Representative Emmanuel Celler recently stated on television that he had received hundreds of letters from businessmen seeking "protection." But such grievances seem personal and have not—as yet—evoked a corresponding collective concern that would legitimize the self-serving demands of the affected few.

Macro Concentration and Centralization

The discussion so far has neglected size and power, always concerns of some who see business as a system of power. Today the most noticeable accretions in firm size seem to be taking a conglomerate form. Let me start by categorically rejecting the view that the only legitimate use of the concept of concentration is as a market phenomenon, i.e., as a proxy measure of the inherently unmeasureable concept "intensity of competition." That use, of course, continues to be a major one. But power, wealth, assets or talent can be widely or narrowly held and we—society—may be differently affected by different patterns of ownership. Thus we may care, and caring, may choose. Nor is the choice fruitfully posed in terms of the extremes of wholly concentrated or wholly dispersed. It makes for striking rhetoric to evoke the glories of a Jeffersonian society of resolute and independent freeholders, or (following Scott Fitzgerald, Art Buchwald, and Mr. Justice Douglas) to imagine the last tycoon master-minding the ultimate merger of Samson and Delilah into Universal Products, Inc. But hyperbole provides little analytic guidance. Ours is a society in which, for a variety of well known and well understood reasons, big companies play a big role, as do big organizations of other kinds. We need to evaluate the net

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costs or benefits of changes in expected (or reasonably predictable) size from the position which we are in now.

We all know that the post-war merger movement has been dramatic, for it has appreciably changed the landscape of American corporate ownership. Let me mention some haphazardly collected statistics. Approximately a thousand manufacturing and mining firms with assets of $10 million or more at the time of acquisition have been acquired since 1945. To put this in perspective, there are somewhat more than two thousand corporations of that size today. The acquired firms are a fair sample of America's large companies: of *Fortune's* 1955 list of the 500 largest corporations, about 15 per cent have been acquired in the period since then. Almost all of 1955's largest 500 participated in some mergers during the post-war period. The role of the *conglomerate* merger among all mergers has been large and growing. The average size of large firms has risen somewhat, and the over-all share of the largest companies in the nation's total production has increased. For example, between 1950 and 1962 the 200 largest manufacturing corporations' share of all corporate manufacturing assets rose from 49 per cent to 55 per cent. Approximately three quarters of this increase reflects assets acquired by merger (conglomerate and other). And so on and on.

Our task, however, is not to define the effect, but to evaluate it. Does this kind of change, as it has occurred and as it might be projected, pose a specific threat to social values that warrants public activity? It is more common to allude to this possibility than to defend it. . . .

Recognizing that only eight of what are commonly called conglomerates are in the current list of the 200 largest manufacturing companies, W. G. Shepherd, an ardent antitruster, characterizes the present flurry of anti-conglomerate activity as a "tempest in a teapot [that] is diverting attention from the real unfinished business of antitrust policy: to reduce the degree of market power prevailing in a series of major industries."

A more common liberal view (here expressed by L. W. Weiss) is agnostic rather than hostile to attacks on conglomerates on macro concentration grounds:

". . . [A] vague but widespread uneasiness exists about the political power of the huge, new firms. I am not sure that one, billion dollar conglomerate has more influence than ten, hundred million dollar firms. My guess is that the ten firms would be better able to win protective tariffs or special tax treatment because of the greater visibility of the conglomerate, but that is only a guess. In general, the superior political power of large firms is yet to be shown.

"The main concern of many observers is less specific than this. They are alarmed by the increase in overall concentration to which conglomerate mergers contribute. I sympathize with their concern. . . . But I doubt that the social and political effect of a billion dollar corporation is different in any important way from that of hundred million dollar firms. . . ."

. . . But the case against macro concentration is a hard one to find articulated for one that is supposedly widely held. If it is not completely nebulous, as the Stigler task force asserted, it is at least vague. Richard McLaren, at least, has offered specificity:

"I am concerned also about the increasing size of these mergers. Aside from the competitive impact of increased economic concentration, I am concerned over the human dislocations which result from these mergers. When the headquarters of one or two large companies are removed from the nation's smaller cities to New York or Chicago or Los Angeles, I think we all recognize that there is a serious impact upon the community.

"The loss is felt by its banks, its merchants, its professional and service people—accountants, lawyers, advertising agencies. The community loses some of its best educated, most energetic and public spirited citizens. . . ."

My reaction to this speculation is one of letdown. Surely the plights of displaced managers, disappointed city fathers and their constituent bankers, advertising men and *a fortiori* their used car dealers are not the foundation of an overriding social concern. After all, someplace must be Second City. This is not to say that such parochial concerns are contemptible; but is it a matter of relative indifference whether we cater to them or does it entail a major cost? We have, at last, come to the question of efficiency.

Efficiency

The effect of conglomerate firms and conglomerate mergers on economic efficiency is sometimes posed as a simple equation: The expected social net benefit produced by a conglomerate is the expected efficiency gain minus the expected competitive loss. The easy way to evaluate the equation is then to argue that one but only one of these two elements is zero, for then the other will be dominant. Let me draw two caricatures. The first would argue that the truly conglomerate acquisition has no direct competitive impact because the acquired firm is by definition in another market and competition is a

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market phenomenon. Thus the competitive cost will be zero. But the acquisition may achieve efficiency benefits. If so, there is a net social gain. If there is no expected efficiency, the merger will not be undertaken or it will prove a mistake, and the market corrects mistakes. Therefore there is no need for public scrutiny since the *expected value* of benefits is necessarily positive.

The opposite caricature would argue that any real efficiencies can be achieved by other means, such as internal growth or *de novo* entry. Thus any attribution of efficiencies to a mere exchange of ownership is specious. At the same time comparing *de novo* entry with acquisition shows acquisition to be an inferior alternative, because there is one less competitor—the acquired firm. Since more competitors are better than fewer, the presumption is that an acquisition will lead to a worsening of the competitive situation. Since the expectation of efficiency gains is zero, and of competitive losses is positive, the acquisition must be adverse. There is thus no economic reason to permit it.

I want to do more than argue that there may be *both* efficiency gains and competitive losses and that thus we are required to measure and compare. I believe there may be either direct efficiency gains or direct efficiency losses, and that there may be increases in efficiency via the effect on competition or decreases in efficiency via competition. If so the efficiency problem is a complex quantitative problem, not a simple one.

Making a list of possible effects of conglomerates is sufficient to show that both directly and indirectly there may be either gains or losses in efficiency. Possibilities aside, it would be nice if we could reach a consensus about probabilities. Can we here agree that in such circumstances the presumption of net benefit is overwhelming, and in such and such a situation the presumption of adverse effect is over-riding? It would be nice. For one thing we could avoid the roulette game of leaving these matters to the courts to decide. We could formulate reasonable guidelines. We might even be able to trust people less sophisticated than ourselves to make correct policy decisions, and so on. My hopes, however, are not my expectations. I have discussed these matters enough to believe that there is no consensus in the professions, or even in this room. This is not because some of us are stupid, or wholly immune to logical and compelling arguments . . . but rather because we have had insufficient attention to careful measurement of effects. Here as elsewhere we are too often content to use "competition" and "efficiency" as shibboleths and as attributes rather than as genuine variables. The survival test notwithstanding, it really is no longer acceptable simply to assert that certain effects are the relevant or dominant ones and thus to settle issues of fact without bothering to get the facts.

Having embarked upon this sermon, a modicum of respect for consistency requires that *I* do not solve the problem of conglomerate efficiency by assertion. But let me list some considerations that need evaluation. I provide a list not to encourage argument counting but to provide an agenda for research. . . . (A former student, Robert J. Kheel, offers as Kheel's Law the proposition that to every argument against conglomerate mergers there is an equal and opposite argument in favor of them. I think the theorem can be generalized.)

a. *Affecting competition by changing the firm and market behavior of existing competitors.*

The conglomerate merger movement has been credited with increasing the vigor of competition in many markets, where acquisitions have been feared as well as where acquisitions have occurred. The threat of take-over by a conglomerate increases the hazard under which all managements operate and thus stimulates them to be more efficient, more aggressive and more alert. The shadow of the conglomerate take-over threatens those managers who rely on dispersed stock holdings to insulate them from effective ownership control. It threatens inefficient, lazy or satisficing managements, and promotes efficiency thereby.

Contrariwise, it has been argued that the direct effect on competitive behavior has been adverse: that open and effective competition of a group of "loose" oligopolists may be snuffed out when one of them is acquired by a large and aggressive firm. This might occur because the newly acquired firm, a catalyst in a once competitive landscape, becomes the focus for price leadership or for tacit collusion. Alternatively, the large resources of the acquiring firm might compel noncompetitive behavior through fear of predatory or punitive retaliation.

Which of these arguments is right? persuasive? important? I incline toward the pro-competitive rather than the anti-competitive here, but that is prejudice and we need evidence.

b. *Affecting competition by changing the condition of entry.*

A good part of the Department of Justice attack on conglomerate mergers is based upon the assertion that

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conglomerates may adversely affect the condition of entry. A first possibility is that the mere presence of a large conglomerate in a given market may inhibit other potential entrants by virtue of the conglomerate's size and market occupancy and (presumably) greater ability to win a competitive struggle for custom. A second possibility is that the fact of entry via acquisition may have precluded *de novo* entry by the acquiring firm and thus the number of actual competitors has not increased while the number of potential competitors has declined by one. (This argument makes the considerable assumption that an entrant via acquisition would have been a viable *de novo* entrant.) Third, the possibility of reciprocity can serve to disadvantage a further potential entrant who sees the probability of making certain sales decrease. Such a decline in expected sales necessarily has the virtual effect of making entry objectively less attractive than it was previously. Thus the threat of entry as a competitive force is diminished.

Each of these adverse effects is fully possible. The probable importance depends both on the size of the inhibition to a new entrant and the number of potential entrants, and these are empirical matters. So, too, is the significance of possible opposite influences which might increase the probability of entry. Possibly important is the demonstration which successful entry gives that an outsider can succeed in a particular industry or that its practices are generally inefficient. Perhaps this explains certain trends in conglomerate acquisition. Litton, Lockheed and General Dynamics each entered the shipbuilding industry around 1960. LTV, AMK and Gulf and Western each entered, or tried to enter, meat packing. If LTV succeeds in steel, others may follow. Such a demonstration may immediately increase the number of potential entrants—if only among other conglomerates.

Another source of possible increased ease of entry results from making exit from an industry easier. This may serve to make entry more attractive to small entrants since conglomerate firms provide a wider market than would otherwise exist for owners of firms who may change their minds and wish to withdraw their capital before liquidation of physical capital is possible. Greater liquidity should tend to reduce reluctance to invest—and thus serve to reduce barriers to entry.

Once again the problem is to evaluate empirically the likelihood of these possibilities.

c. *The effect of conglomerate firms on market imperfections.*

The conglomerate firm and the conglomerate merger movement may overcome some market imperfections and add to others and, so doing, may facilitate or impede market efficiency.

If there are impediments to intercorporate and inter-industry flows of resources, the conglomerate firm by internalizing these shifts may facilitate them. It is widely believed that managerial mobility within a corporate hierarchy tends to be easier than between corporations, and the conglomerate firm makes even inter-industry moves intra-corporate. The diversion of capital from one use to another is a major possibility. . . . Intra-corporate shifts overcome tax induced barriers to capital mobility, and funds are more easily diverted to activities where their productivity is high.

The other side of the same coin, however, suggests possible impediments to market determination and thus to efficient resource use. Internal financing not only avoids the market test of the best use of resources but also weakens the private capital market as a source of funds. Conglomerates tend to displace the private capital market at the same time they supplement it, and to substitute personalized allocation decisions for impersonal ones. Moreover, it is at least possible that internal corporate accounting conventions serve to confuse or soften the market performance test within the branches of a large corporation. It is sometimes argued that these added market imperfections should not be attributed to the conglomerates but instead to foolish tax laws, arbitrary accounting conventions and so on. But that need not be persuasive. Consider the tax effect. An individual (or a society) may start from the position that it wants a corporate income tax, even if the tax has resource allocation disadvantages. If so, a further institution (e.g., the conglomerate) may exacerbate the disadvantage. Such a further cost is an opportunity cost of *both* the tax law and the conglomerate. As linear programmers know, if two constraints bind, each has a shadow price.

Reciprocity plays a potential role here too. If reciprocal trading patterns tend to insulate certain sales, or more generally, to lower the cross elasticities of demand between products of different sellers, they reduce to that extent the competitive interplay among sellers. That much is not seriously debatable. Non-believers in reciprocity argue that it is an improbable practice (an argument hard to sustain in the face of the factual record), or that it is a foolish practice which will not survive, or that it creates off-setting efficiencies. The last possibility is mentioned below. But the point here is that whenever reciprocity

occurs it has a potential for decreasing competitive vigor and this can have an adverse effect on efficiency. As to its *net* effect we require data, not assertion.

d. *Direct effects on efficiency*

The fact that conglomerate mergers seem to offer potential for profits suggests that conglomerate firms may do some things better than non-conglomerate firms. The literature exhibits no paucity of sources of potential efficiency. Prominently mentioned is the presence of economies of scale in unconventional—other than plant scale—dimensions. Management, research and development, promotion, public relations, and availability of capital are all mentioned. Unless these "outputs" are themselves anathematized, efficiency in their provision represents social gain. The managerial argument may be taken as illustrative. Management, once a prominent bottleneck to growth, has recently (goes the argument) been transformed by management science and by the computer. Rational decision-making principles can be applied in a consistent way to vastly different enterprises and there are economies to be had by so applying them. These economies are of the conventional kinds including advantages of specialization, of learning by doing, and of efficiently using the highly scarce resource: the trained management scientist. In the face of these innovations which increase optimal firm size, larger profits would have resulted from any increase in the size of the firm. But there are further profits to be earned because scientific managerial skills are learned by the young. As one commentator puts it, conglomerates make it possible "to remove assets from the inefficient control of old-fashioned managers and place them under men schooled in the new management science."

. . . Yet other real economies may be realized through reciprocal buying arrangements where there are real but unexploited economies of plant scale. The argument is not different from the kind used with respect to vertical arrangements. Thus if an imaginary firm called Liquid Carbonics could reduce costs by X per cent if only it could increase output by Y per cent, a merger with the equally imaginary firm, General Dynamics, might give Liquid Carbonics favored access to General Dynamics' suppliers and thus provide the basis for a Y per cent increase in sales. The resulting X per cent efficiency gain is social as well as private, and there is no reason in principle why it may not more than off-set any competitive harm. . . .

Even the coin of "direct efficiency" has an opposite side. For example, so far as conglomerates encourage reciprocal buying arrangements, the resulting insulated markets may divert the attention of some managers from cost reduction, product quality, and keeping prices competitive, and permit them to enjoy an easier life. Moreover, it may divert attention from these potentially profitable (and socially valuable) activities to other potentially profitable (but arguably less socially valuable) activities such as lobbying, speculating, or "excessive" promotion.

Yet further, the very atmosphere of concern that conglomerate takeovers create—argued above as a stimulus to competition — may change corporate behavior in ways that distort resource allocation. Significant resources of existing firms may be devoted to resource consuming defensive moves, including legal services and public relations activity. More important this atmosphere may lead to a change in the risk distribution of ventures. Some firms may avoid risky ventures which should be undertaken and engage in safer ones with lower expected values, because the possibility of conglomerate take-over overly punishes an unsuccessful venture. Other firms may take foolish risks in order to appear dynamic.

There is no comfortable way to conclude this recital of possible efficiency gains or losses. Possibility theorems are an endless web, and I have asserted (and believe) that no LaPlacian intellect will free us from the need to sort, sift, measure, and compare. And there are many more empirical problems than I have mentioned. For one example, if potential competition is important, how do we identify the potential entrants? How, in Joe Bain's phrase, do we measure the general condition of entry?

It may be that such empirical regularities as we find will be structure-oriented — that conglomerate mergers will prove benign in some well defined circumstances, and adverse in others. This is the hope of the Guideliners, but I find little comfort in the guidelines promulgated so far. Another possibility is that knowledge will prove that specific costs and benefits of conglomerates are attributable to specific practices—to particular forms of behavior or conduct. If so, an easy set of solutions is available. This is the will-o-the-wisp of the *per se* rule makers.

Conclusion

What, in conclusion, is the public interest in conglomerates? Financial considerations aside, the "problem of conglomerates" (if indeed it *is* a problem) seems no more tractable to easy policy solution than other hard problems. Indeed, hard problems are defined by the absence of obvious solutions. There are those who would say: "If the matter is close, let freedom swing the balance"—let private decisions stand in the absence of an overriding case against them. Others would reverse the burden of proof, fearing that structural change in the economy of the kind we have had in the last decade tend to be irreversible. But neither position is compelling. Fortunately I doubt if the future of either American capitalism or of American democracy is in the balance. The most satisfactory response to ignorance is to combat it. Let us have a moratorium on assertion and invite a search for evidence. Let us shed the mantles of our righteousness. Let us pry.