Anti-Trust Policy: Economics versus Management Science

M. A. Crew and C. K. Rowley

Neo-classical economic theory taught that the state is justified in taking action against trusts or monopolies, because they artificially raise prices and thus cause a loss to consumers.\(^2\)

This doctrine, however, has recently been challenged, at least in its unambiguous form, by O. E. Williamson,\(^3\) who points out that an increase in size resulting from a merger can give economies of scale, which might result in lower costs of production. Yet more recently, on the other hand, W. S. Comanor and H. Leibenstein\(^4\) have pointed out that the loss to the welfare of the community from a monopoly might be even greater than the loss arising from higher monopoly prices because of the loss of efficiency by the monopoly due to lack of competition – what Leibenstein calls a reduction in ‘X-efficiency’.\(^5\) This concept of ‘X-efficiency’ is new to economics, but has long been present implicitly or explicitly in the literature of management science\(^6\) which has always been concerned with helping firms to reduce costs by using their

---

1 We are very grateful to Maxwell Stamp for his helpful suggestions which have added considerably to the clarity of the paper.

2 Neo-classical theory always recognised the possibility of natural monopoly in which the existence of overwhelming scale economies presaged the breakdown of competition. Examples of natural monopolies include bridges and public utilities.


resources more efficiently, and thus always interested in factors making for inefficiency.

This paper considers anti-trust policy in the light of these considerations. Since the values – the social priorities – of authors and readers may differ, the paper sets out the specific set of value assumptions used. This paper considers the classic case for controlling monopolies, Williamson's 'trade-off' approach, the problem of reduced efficiency in monopolies, and the problems and costs of introducing and implementing alternative types of control in the light of one specific example recently before the British Monopolies Commission. And finally the authors' views are outlined on a policy for controlling monopolies, near monopolies, or cartels.

One of the most difficult problems in discussing matters of this nature is to distinguish clearly between conclusions which arise out of the economic analysis and conclusions which arise out of the value judgements of the arguer. This makes life particularly difficult for non-economists who cannot be expected to be au fait with the intricacies of welfare economics, and partly accounts for the suspicion with which economics is regarded by the non-economist. To minimize this difficulty it is necessary to set out clearly the value judgements of the authors, so that the reader can see whether he agrees or disagrees with them, and thus whether he takes issue with the authors – if he does – on grounds of fact and interpretation or because his values are different.

The relevant value judgements in this case form a so-called 'social welfare function', which is concerned with maximizing the net gains that consumers receive together with any gains derived by producers from cost savings, so that benefits received by producers are given the same importance in our

\[ W = TR + S - TC \]

where \( W \) = net welfare gain, \( TR \) = total revenue, \( S \) = consumers' surplus, and \( TC \) = total cost. This approach has been used with insight by O. E. Williamson, both op. cit. and also in 'Peak-Load Pricing and Optimal Capital under Indivisibility Constraints', American Economic Review, LVI (1) (Sep 1966) 810–27.