

The Effects of Competition: Cartel Policy and the Evolution of Strategy and Structure in British Industry. By George Symeonidis. Cambridge and London: MIT Press, 2002. Pp. x, 542. \$55.00. ISBN 0-262-19468-6 JEL 2002-0624

For much of the 1980s and early 1990s industrial organization was an area of modern economics in which there was not much of interest going on. The grand issues of market structure and its effects on consumer welfare, innovation, and other economic indicators were no longer of particular interest; the triune structure-conduct-performance paradigm had reached no particular consensus results; and the public policy issues raised by industrial organization—antitrust and governmental regulation—had been answered by a consensus in favor of much less antitrust enforcement, privatization, and deregulation. Slowly, that quiescence began to change in the mid-1990s. In part that was due to the invigoration provided, in the United States at least, by the U.S. government's antitrust case against the Microsoft Corporation. Within the academy there was an equally invigorating spark for new

industrial studies being generated by the sophisticated work of game theorists investigating strategic interaction among firms and increasingly sophisticated econometric work on industrial structure-conduct-performance themes.

Professor Symeonidis, of the University of Essex, here provides a marvelously instructive and original study in the new industrial organization. He has found an episode in recent British economic policy that provides a set of data allowing him to examine important but long-neglected topics in industrial organization. The episode is the 1956 Restrictive Trade Practices Act. Somewhat astonishingly, collusive agreements among firms, although not enforceable as contracts, were not actionable as violations of antitrust laws in Great Britain in the 1950s. In part this was due to the fact that the government had encouraged cartel agreements in the 1930s to combat severe recessionary effects and, during and just after the war, to further efficiencies in war supply and in recovery from the trauma of war. The 1956 Act represented a change of public policy under which collusive agreements were deemed to be bad. The Act called for the registration of all collusive agreements and ultimately their adjudication through a Restrictive Practices Court. Because the Court did not begin hearing cases till 1959 (after which date the Court was generally very hard on collusion) and because the Act allowed for those in a restrictive agreement to mount an efficiency defense, there was no initial reservation among firms to registering their agreements with the relevant governmental office. Indeed, more than 2,000 collusive agreements, the vast majority of them among industrial firms designed to restrict prices, were registered by the end of the 1950s. However, once the Restrictive Practices Court began to work in earnest, the registered cartels dissolved during the 1960s.

There has been one thorough study of the effectiveness of the collusive agreements under the Act and the effects of the Act on those cartels—Dennis Swann et al. 1974, *Competition in British Industry: Restrictive Practices Legislation in Theory and Practice*, London: Allen & Unwin. That study had famously found that the cartels succeeded in modestly raising prices, did not succeed in deterring entry into cartelized industries, and did not earn excessive profits. Swann et al. found, also, that in the instances in which the

Court voided the collusion agreements, prices in the industry fell.

Symeonidis takes a somewhat different tack. He has compiled extensive data on two very different groups of industries—“those industries with a change of competition regime following the [Act] and those without a change in regime” (p. 45)—a difference that constitutes a “natural experiment.” In addition to testing for important effects of collusion like those of the Swann et al. study, Symeonidis’s data set allows him to look at such fascinating questions as to what kinds of industries are more likely than not to form successful cartels. He finds, among many other significant things, that the industries that successfully colluded were different not in their initial industrial structure but rather in their greater capital intensity, a higher level of entry costs, greater advertising efficiency, and greater technological opportunities. None of that is particularly surprising, but it is, nonetheless, carefully and conclusively demonstrated.

Part of the motivation for the distinctions that Symeonidis draws among industries with and without cartel agreements in the mid-1950s has to do with John Sutton’s recognition of the important differences among industries with respect to exogenous or endogenous sunk costs, advertising intensity, and research-and-development intensity. Symeonidis uses these characteristics to examine what happened to the cartelized and uncartelized industries after the 1956 Act. For instance, he finds that with the intensification of price competition that followed the collapse of collusion, there was an increase in the concentration of advertising-intensive industries but a fall in advertising intensity.

The focus throughout the book is on positive questions and the econometric techniques for answering them. Rarely does Symeonidis draw out policy implications of the results, although they are abundant. Two are worth noting—that higher concentration ratios in an industry are not necessarily welfare-decreasing, so long as entry is still relatively easy; and that in a particular industry price and nonprice competition vary in predictable but somewhat unexpected ways (for instance, that when price competition increases, advertising decreases, and that there is no clear relationship between an increase in price competition and the subsequent rate of innovation in the industry).

Symeonidis is assiduous about sharing his data and results. The text is about 350 pages long, and the remaining 200 pages consist of two extensive appendices, one surveying the collusive agreements registered under the 1956 Act and the second containing the study's data set. I applaud the extensive sharing of data, and I applaud the careful and thorough hands-on empirical work that informs this important scholarship.

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