Competition Policy in Innovative Industries
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Discussion

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Generally, competition policy models take product characteristics as given:
- firms tie existing products, they lock-in customers of existing products, they exclude rivals from an existing market.

However, firms found guilty of a single abuse have normally brought something to the market in the first place;
- So it makes sense to look at their actions as a whole.

Literature so far has studied the case where innovation and abuse are fudged: "I cannot innovate otherwise".

This paper intends to fill the gap, focusing on the extent to which antitrust abuse triggers technologically separated innovation:
- "I would not have innovated otherwise"
This paper calls for harsher antitrust treatment while the literature so far rather called for a more lenient approach for innovating firms.

Note that one approach is not better than the other;

- Whether innovation and abuse can be separated is a matter of technology.
- Legally, showing that the abuse is (technologically) indispensable (necessary for efficiencies) is easier. With incentives, this is more tricky.
  - especially if innovation is not discrete but firms can make more or less effort
Firms can enter into abusive behaviour:
- Increase price-cost margin: bad
- Decrease marginal cost: good
- On balance: good or bad

They can also innovate:
- Decrease marginal cost: good
- Costly

Firms are either "unconditional" or "conditional" innovators.
- The "unconditional innovator" would innovate absent abuse while conditional innovator needs abuse for innovation to be profitable.
- Calling them high-tech and low-tech is misleading as these are observable sector or firm characteristics.

The model is such that one cannot separate the two types from the observation of strategies: A (Abuse) or A+I (Abuse and Innovation).
- However, "unconditional innovator" is more likely to innovate in addition to A, which means that the probability to be an "unconditional innovator" is larger if we observe A+I than if we observe A.
The Model

- A by "unconditional" innovator is more harmful
- The Antitrust Authority (AA) cannot perfectly infer the type;
  - they may neither properly assess the harm for a given type, nor identify whether A is indispensable to I (i.e. whether they face a conditional or unconditional innovator).

- The main result is that (whatever the authority’s underlying attitudes towards type I and type II errors) it should put relatively more effort into reducing type II errors when the observed strategy is I + A than when it is A;
  - You are really concerned to let an "unconditional innovator" go loose even if this is at the cost of convicting a "conditional innovator", who, one balance, benefits customers.
Main remarks

- This is a very nice paper with a nice policy message.
  - However, it is written in a very linear way. It could be more accessible if streamlined more.
- Firms should react to the policy of the Antitrust Authority.
  - In the model firms always do A, while the goal would be to deter them, at least sometimes.
  - How do you get at least some "unconditional innovators" do I only?
  - You mention all this as further research, I think this is the core of the paper (and you have presented the building blocks for it)
Other remarks

- The harm is known by AA and the cost efficiencies are unknown:
  - while cost savings are actually much easier to assess for everyone
  - AA require firms to make them verifiable in practice
  - no access to counterfactual for overcharges
  - If you want to model them credibly, you need to take this into account.

- There are two efficiencies. Could you not get rid of the "abuse" part and still get that you cannot separate the types?

- You model a brick and mortar industry:
  - What if this would be product innovation (as in high tech industries) that increase the price cost margin, the A part increasing it further?

- More generally, to what extent is your model dependent on the parametric form and linearization
  - probably not so much, so this would be nice to show robustness

- You take a very static view on innovation:
  - What if the abuse forecloses rivals, increases initial innovation but decreases subsequent innovations?