Compatible Mergers: Assets, Service Areas, and Market Power*

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December 4, 2019

Abstract

This paper empirically examines the discrepancy between the incentive of firms to merge and the social value of mergers using data on merger waves in the pre-WWII Japanese electricity industry when a competition authority did not yet exist. We find that firms could enjoy cost synergies when merging with firms with greater differences in production asset composition and/or reachable customers. Such mergers resulted in increases in capital utilization and output. However, these synergies did not affect the merger decision; instead, geographical proximity increased the likelihood of mergers. These results imply that the merger incentive may not align with social welfare.

JEL Classification: D22, D24, G34, L94.
Keywords: Mergers and Acquisitions, Merger Policy, Merger Waves.

*We are grateful to Kei Kawai, Shaun McRae, Mitsukuni Nishida, Atsushi Ohyama, Kosuke Uetake, and participants in a number of conferences and seminars for their helpful comments and suggestions. Okazaki and Wakamori gratefully acknowledge financial support from JSPS KAKENHI Grant Numbers JP19H00587 and JP19K13675. The analysis and conclusions set forth are the authors and not those of other Federal Reserve staff members or the Board of Governors or the other Federal Reserve banks.

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