

RESILIENCE AND RESTRUCTURING MERGER EFFICIENCIES IN DECLINING INDUSTRIES

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ABSTRACT. This paper develops an economic framework for assessing restructuring efficiencies in horizontal merger control. In declining industries with high fixed costs, excess capacity and substantial exit barriers, decentralized closure decisions may generate a war of attrition: each producer waits for rivals to withdraw capacity first, losses accumulate, investment deteriorates and eventual exit occurs abruptly rather than smoothly. Standard merger analysis may mischaracterize this process by treating continued independent operation as the counterfactual and by equating all capacity reduction with consumer harm. We distinguish orderly restructuring against prolonged zombie survival and disorderly exit, and model the merger's resilience benefit as the reduction in probability-weighted consumer losses from disruption. The model shows that where consumer costs under orderly adjustment are approximately the same with and without the merger, any reduction in the probability of disorderly exit is welfare enhancing. Where the merger increases orderly-state consumer costs, it remains procompetitive whenever the reduction in expected disorderly-exit losses exceeds that increase. The analysis provides a disciplined basis for recognizing restructuring efficiencies without converting merger control into open-ended industrial policy.

KEYWORDS: Horizontal Mergers; Restructuring Efficiencies; Disorderly Exit; Excess Capacity; Market Resilience; Declining Industries; Zombie Firms.

JEL Nos: L41; L44; D43; G33; L13; L52.

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I. INTRODUCTION

Competition policy has long regarded mergers with understandable skepticism. Across jurisdictions, horizontal mergers are viewed primarily as potential sources of market power capable of increasing prices, reducing output and weakening innovation. Many mergers do indeed reduce competitive pressure. Some claimed efficiencies fail to materialize. And the general consensus is that competition authorities are right to insist that efficiency claims be merger-specific, verifiable and likely to benefit consumers.

Yet this consensus reflects the historical evolution of merger policy: it is driven by efficiencies that arise in growing or stable industries, where it is reasonable to assume that competitors would continue operating independently. Efficiencies here then typically relate to the extent to which costs are reduced, innovation is improved and contractual frictions are reduced. However, numerous industries today are characterized by declining demand, persistent excess capacity, substantial fixed costs or widespread financial distress. In such environments, competition is shaped not only by rivalry among incumbent firms, but also by the process through which industries restructure, productive assets are redeployed, and inefficient capacity exits the market. Modern merger guidelines devote significant attention to productive and dynamic efficiencies at least implicitly assessed against the counterfactual of continued independent operation. While this may be a reasonable assumption in stable or growing markets, it is considerably less so in declining industries, where maintaining independent operations may not be economically viable. Competition policy should therefore draw equal attention to merger-specific efficiencies arising in circumstances where continued independent operation does not constitute a realistic counterfactual.

Remarkably, while modern industrial organization and macroeconomics have devoted enormous attention to these processes, merger policy has incorporated comparatively little of this literature. Research on creative destruction, firm dynamics, capital reallocation, zombie firms, business dynamism and industrial restructuring has fundamentally changed economists' understanding of long-run productivity growth. Competition is now widely understood as a dynamic process involving entry, expansion, contraction and exit. Yet merger control continues to evaluate most transactions against counterfactuals that implicitly assume the continued independent

operation of firms unless the demanding conditions of the failing-firm defense are satisfied.

This disconnect between merger policy and the broader economics of industrial restructuring has become increasingly important. Policymakers throughout Europe now express concern about weak productivity growth, declining business dynamism, industrial fragmentation, and insufficient investment. Reports by Mario Draghi¹ and Enrico Letta,² together with recent initiatives by the European Commission³ and the UK Competition and Markets Authority,⁴ all recognize that competitiveness depends upon efficient industrial adjustment as much as upon preserving rivalry among incumbent firms. At the same time, economists have increasingly documented the costs associated with delayed restructuring, persistent zombie firms and inefficient capital allocation.⁵ These developments naturally raise an important question. Should merger control acknowledge restructuring itself as a potential source of merger-specific efficiencies?

This paper argues that it should and provides a framework to undertake that analysis. Its central claim is not that restructuring necessarily justifies greater merger permissiveness, nor that competition

¹ Mario Draghi, *The Future of European Competitiveness, Part A: A Competitiveness Strategy for Europe and Part B: In-Depth Analysis and Recommendations* (European Commission, September 2024).

² Enrico Letta, *Much More Than a Market: Speed, Security, Solidarity – Empowering the Single Market to Deliver a Sustainable Future and Prosperity for All EU Citizens* (Report to the European Council, April 2024).

³ European Commission, *A Competitiveness Compass for the EU*, COM(2025) 30 final (29 January 2025); European Commission, *The Clean Industrial Deal: A Joint Roadmap for Competitiveness and Decarbonisation*, COM(2025) 85 final (26 February 2025).

⁴ Competition and Markets Authority, *Annual Plan 2025 to 2026* (27 March 2025); Sarah Cardell, ‘New CMA Proposals to Drive Growth, Investment and Business Confidence’, CMA Blog (13 February 2025).

⁵ See Ricardo J. Caballero, Takeo Hoshi and Anil K. Kashyap, ‘Zombie Lending and Depressed Restructuring in Japan’, 98 *American Economic Review* 1943–1977 (2008); Müge Adalet McGowan, Dan Andrews and Valentine Millot, ‘The Walking Dead? Zombie Firms and Productivity Performance in OECD Countries’, 33 *Economic Policy* 685–736 (2018); Dan Andrews and Filippas Petroulakis, *Breaking the Shackles: Zombie Firms, Weak Banks and Depressed Restructuring in Europe*, ECB Working Paper No. 2240 (2019).

authorities have underestimated market power. Rather, it argues that restructuring efficiencies constitute a distinct category of dynamic efficiencies that has received insufficient analytical attention. Existing merger frameworks accept productive efficiencies, transaction-cost efficiencies and, increasingly, innovation efficiencies. They devote considerably less attention to situations in which mergers avoid the unnecessary destruction of economic value by facilitating the orderly redeployment of productive assets, coordinating capacity reductions in declining industries and preserving organizational capital, or reduce the risk of disorderly industrial adjustment. These are material for consumer welfare: they may result in sudden capacity withdrawals, supply interruptions, loss of organizational capital, destruction of intangible assets, credit tightening, and panic among customers and suppliers.

The paper develops this argument by integrating several previously separate streams of literature. It combines the economics of merger control with research on industrial restructuring, creative destruction, business dynamism, zombie firms and market resilience. The objective is not to replace existing merger analysis but to complement it by developing a richer understanding of the relevant counterfactual in industries where continued independent operation may itself be economically implausible.

Conventional merger analysis typically assumes that absent the merger the merging firms continue competing independently so that the merger creates market power. In rare occasions, competition authorities consider the possibility that the target is a failing firm that would exit the market absent the transaction. When that is the case, the transaction is approved if the assets of the failed firm would end up under the acquirer's control even absent the merger. Under the so-called "failing firm defense", competition authorities prefer "orderly" to "disorderly" exit.

In growing or stable industries, continued independent operation may be a sensible starting point. In declining industries, however, that assumption can be seriously misleading. Firms may be operating below efficient scale, capacity may substantially exceed foreseeable demand, balance sheets may be deteriorating and investment may already have been deferred. The relevant question is no longer whether restructuring will occur, but when it will occur, which assets will leave, and whether adjustment will be orderly or disorderly. This distinction matters for consumer welfare. Orderly restructuring

allows capacity to be withdrawn gradually, customers to qualify alternative suppliers, production to move to more efficient facilities and firms to preserve the working capital and investment needed to maintain reliable supply. Disorderly exit is different. Rather than allowing capacity to adjust gradually, it may harm consumer welfare through closures that occur suddenly and in clusters, because customers have to scramble for substitute supplies, inventories are depleted, product-specific shortages emerge, prices become volatile and specialized capabilities may disappear. An industry can therefore move rapidly from excess capacity to scarcity even while underlying demand continues to decline.

Conventional merger analysis is poorly equipped to evaluate this possibility. It tends to focus on the expected price effect in a normal or orderly state. It gives much less attention to changes in the likelihood and severity of extreme events. The failing-firm defense offers only a partial solution because it generally requires evidence of imminent failure by a particular firm. Industry-wide fragility may arise well before any individual producer meets that standard. An industry composed of several technically solvent but financially weak producers can be more vulnerable to clustered exit than one containing a smaller number of stronger firms.

The source of the problem is a “restructuring externality.” Capacity is a strategic substitute and closing capacity benefits the industry by improving utilization, stabilizing cash flows, and reducing the probability of future disorder. Yet, the firm that closes bears the private costs of exit while appropriating at best only a fraction of those benefits. Each producer would thus prefer another producer to move first. The result is a “war of attrition” in which socially desirable adjustment is delayed. Fragmented ownership, single-plant producers, irreversible closure costs and common financial shocks intensify this coordination failure.

A horizontal merger may internalize part of the restructuring externality. A multi-plant merged firm can compare facilities across a broader portfolio, close the least efficient capacity, transfer production and customers to surviving plants and coordinate closures with maintenance and investment. Capacity restructuring could reduce the probability of shortages, emergency procurement, abrupt loss of specialized know-how or products and widespread customer switching. If capacity reductions following a merger do not result in higher prices relative to a counterfactual of persistent excess capacity,

capacity restructuring is always consumer welfare enhancing and should be welcomed. If instead capacity reductions would result in higher prices, the effect on consumer welfare depends on the balancing of the potential consumer costs with the merger, against the consumer costs caused by disorderly exit absent the merger. In these cases, the welfare comparison is consequently intertemporal and probabilistic.

This paper formalizes that comparison. It defines expected consumer loss under the merger and no-merger regimes as the sum of the potential consumer costs resulting from orderly capacity adjustment and the additional probability-weighted harm caused by disorderly exit. The model yields two central results. First, if consumer costs under orderly adjustment are approximately equal with and without the merger, any reduction in the probability of disorderly exit improves expected consumer welfare. Second, if the merger increases consumer costs in the orderly state, it remains procompetitive whenever its reduction in expected disorderly-exit losses exceeds that increase. This provides the basis for a practical threshold test linking the required probability reduction to the magnitude of ordinary merger harm and the severity of disruption.⁶

The framework is not an argument that declining industries should be exempted from merger control. Nor does it maintain that capacity reduction is intrinsically efficient or that higher prices should be welcomed. A restructuring claim should fail where demand decline is temporary, exit is already likely to be smooth, effective spare capacity is not ample, customer switching is easy, or the merger does little to change the timing and magnitude of closures. The purpose of the framework is to distinguish such cases from those in which prohibition preserves nominal rivalry only temporarily while increasing the probability of a much more damaging adjustment later.

The paper proceeds as follows. Section II reviews the literature on merger efficiencies and industrial restructuring, identifying an important gap between merger economics and the broader economics of industrial dynamics. Section III explains why competition authorities have historically remained skeptical of restructuring

⁶ The practical implementation of the test may not always be straightforward, as it requires an intertemporal assessment of the expected harm from disorderly exit, weighting the magnitude of the harm by the probability that such an outcome materializes.

efficiencies despite accepting other forms of dynamic efficiencies. The subsequent sections examine the theoretical and empirical foundations of restructuring, discuss their implications for innovation, exit, business dynamism and resilience, and propose an evidentiary framework capable of distinguishing genuine restructuring efficiencies from speculative assertions. The paper concludes by arguing that the explicit recognition and analysis of restructuring efficiencies would strengthen rather than weaken modern merger control by making its economic foundations more complete.

II. AN OVERVIEW OF THE RELEVANT LITERATURES

A. Merger Efficiencies in Competition Economics

The economics of merger efficiencies has traditionally revolved around a single central question: do the productive efficiencies generated by consolidation outweigh the allocative potential losses associated with increased market power? Since Williamson's seminal contribution, the merger efficiencies defense has largely been understood as a trade-off between productive gains – economies of scale and scope, transaction-cost savings, managerial improvements – and the potential reduction in competition arising from increased concentration.⁷ Although subsequent developments in industrial organization have considerably refined the analysis of unilateral effects, coordinated effects, entry and innovation, the basic structure of the debate has remained remarkably stable. Merger policy continues to evaluate transactions primarily through the twin lenses of market power and productive efficiency.

This focus has generated an extensive theoretical and empirical literature. On the theoretical side, contributions by Farrell and Shapiro, Werden and Froeb, Motta, Salop, Shapiro and others have progressively improved economists' understanding of the competitive effects of horizontal mergers.⁸ In parallel, a large empirical literature has

⁷ Oliver E. Williamson, 'Economies as an Antitrust Defense: The Welfare Tradeoffs', 58 *American Economic Review* 18–36 (1968).

⁸ See, among others, Joseph Farrell and Carl Shapiro, 'Horizontal Mergers: An Equilibrium Analysis', 80 *American Economic Review* 107–126 (1990); Gregory J. Werden and Luke M. Froeb, 'The Effects of Mergers in Differentiated Products Industries: Logit Demand and Merger Policy', 10 *Journal of Law, Economics, & Organization* 407–426 (1994); Carl Shapiro, 'Mergers with Differentiated Products', 10 *Antitrust* 23–30 (1996); Massimo Motta, *Competition Policy: Theory and Practice* (Cambridge University Press 2004); Steven C. Salop and Serge Moresi,

examined the actual consequences of mergers using retrospective studies, structural estimation and event-study methodologies. Although conclusions differ across industries and empirical strategies, the overall lesson is one of considerable heterogeneity: some mergers increase prices substantially, others generate significant efficiencies, and many produce both simultaneously.⁹

Over time, merger policy has acknowledged several categories of efficiencies. The traditional category consists of productive efficiencies, including reductions in production costs, economies of scale and scope, elimination of duplication, and improvements in operational efficiency. More recently, authorities have identified dynamic efficiencies associated with innovation, investment and technological development, although generally subject to particularly demanding standards of proof. A third category concerns transaction-cost efficiencies arising from improved governance, contractual simplification and the internalization of market transactions.

Remarkably, however, one important category of efficiencies remains largely absent from both merger doctrine and the academic literature: restructuring efficiencies. Existing discussions occasionally refer to aspects of restructuring indirectly through the failing-firm defense or references to fixed-cost savings. Yet, mergers that facilitate the orderly redeployment of productive assets, accelerate the exit of persistently inefficient firms, coordinate capacity reductions in declining industries or reduce the likelihood of disorderly industrial adjustment are rarely analyzed as creating a distinct source of consumer welfare.

This omission is increasingly difficult to reconcile with developments elsewhere in economics. Modern industrial organization, macroeconomics and corporate finance have all progressively accepted that competition operates not only through rivalry among incumbent firms but also through the continuous reallocation of

Updating the Merger Guidelines: Comments (submission to the U.S. Department of Justice and Federal Trade Commission, 9 November 2009).

⁹ For surveys and representative studies, see Graeme Hunter, Gregory K. Leonard and G. Steven Olley, ‘Merger Retrospective Studies: A Review’, 23 *Antitrust* 34–41 (2008); Orley Ashenfelter and Daniel Hosken, ‘The Effect of Mergers on Consumer Prices: Evidence from Five Mergers on the Enforcement Margin’, 53 *Journal of Law and Economics* 417–466 (2010); John E. Kwoka, *Mergers, Merger Control, and Remedies: A Retrospective Analysis of U.S. Policy* (MIT Press 2015).

resources across firms and industries. Entry, expansion, contraction and exit are now understood as fundamental components of competitive market economies rather than exceptional events occurring outside the competitive process.

B. Industrial Restructuring as a Source of Economic Efficiency

Beginning with Schumpeter's theory of creative destruction, economists have increasingly viewed industrial restructuring as one of the principal engines of long-run productivity growth.¹⁰ Modern models of industry dynamics developed by Hopenhayn, Ericson and Pakes, Melitz and others demonstrate that aggregate productivity depends not only upon innovation within firms but also upon the continual reallocation of labor, capital and managerial resources toward more productive producers.¹¹ Competition therefore operates simultaneously through innovation, selection and resource reallocation.

Macroeconomic research reaches remarkably similar conclusions. Caballero and Hammour demonstrated that efficient restructuring constitutes a central mechanism through which economies adjust to technological and demand shocks, while frictions delaying exit reduce aggregate productivity and investment.¹² More recently, the literature on zombie firms has documented how the prolonged survival of economically non-viable firms weakens capital reallocation, discourages investment by healthier competitors and slows productivity growth. Beginning with Caballero, Hoshi and Kashyap's analysis of Japan and subsequently expanded by the

¹⁰ Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, ch. VII (Harper & Brothers 1942).

¹¹ Hugo A. Hopenhayn, 'Entry, Exit, and Firm Dynamics in Long Run Equilibrium', 60 *Econometrica* 1127–1150 (1992); Richard Ericson and Ariel Pakes, 'Markov-Perfect Industry Dynamics: A Framework for Empirical Work', 62 *Review of Economic Studies* 53–82 (1995); Marc J. Melitz, 'The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity', 71 *Econometrica* 1695–1725 (2003).

¹² Ricardo J. Caballero and Mohamad L. Hammour, 'The Cleansing Effect of Recessions', 84 *American Economic Review* 1350–1368 (1994); Ricardo J. Caballero and Mohamad L. Hammour, 'On the Timing and Efficiency of Creative Destruction', 111 *Quarterly Journal of Economics* 805–852 (1996); Ricardo J. Caballero and Mohamad L. Hammour, 'The Cost of Recessions Revisited: A Reverse-Liquidationist View', 72 *Review of Economic Studies* 313–341 (2005).

OECD, the IMF, the BIS and the European Central Bank, this literature has established that delayed restructuring imposes substantial costs extending well beyond the firms directly concerned.¹³

Industrial organization has likewise devoted considerable attention to declining industries characterized by persistent excess capacity and costly exit. Contributions by Ghemawat and Nalebuff, Bulow and Klemperer, and Fudenberg and Tirole demonstrate that firms facing irreversible exit decisions frequently become trapped in wars of attrition. Each firm prefers competitors to incur the costs of restructuring first, resulting in prolonged losses, delayed adjustment and, ultimately, abrupt waves of exit that destroy valuable organizational capital.¹⁴

Despite these advances, merger control has developed largely independently of the economics of restructuring. Modern merger guidelines consider productive and dynamic efficiencies while continuing to evaluate mergers primarily against a counterfactual of continued independent operation. The principal exception remains the failing-firm defense, which permits authorities to consider unavoidable exit under narrowly specified conditions.¹⁵ Outside that doctrine, however, relatively little attention has been devoted to the possibility

¹³ Caballero, Hoshi and Kashyap (2008), cited above; Adalet McGowan, Andrews and Millot (2018), cited above; Bruno Albuquerque and Roshan Iyer, *The Rise of the Walking Dead: Zombie Firms Around the World*, IMF Working Paper No. 2023/125 (2023); Ryan Banerjee and Boris Hofmann, ‘Corporate Zombies: Anatomy and Life Cycle’, 37 *Economic Policy* 757–803 (2022); Andrews and Petroulakis (2019), cited above.

¹⁴ Pankaj Ghemawat and Barry Nalebuff, ‘Exit’, 16 *RAND Journal of Economics* 184–194 (1985); Drew Fudenberg and Jean Tirole, ‘A Theory of Exit in Duopoly’, 54 *Econometrica* 943–960 (1986); Jeremy Bulow and Paul Klemperer, ‘The Generalized War of Attrition’, 89 *American Economic Review* 175–189 (1999). For empirical evidence of strategic delay, see Yuya Takahashi, ‘Estimating a War of Attrition: The Case of the US Movie Theater Industry’, 105 *American Economic Review* 2204–2241 (2015).

¹⁵ European Commission, *Guidelines on the Assessment of Horizontal Mergers under the Council Regulation on the Control of Concentrations between Undertakings*, 2004 O.J. C 31/5, paras 76–88 (efficiencies) and 89–91 (failing firm); Competition and Markets Authority, *Merger Assessment Guidelines*, CMA129 (18 March 2021), paras 3.21–3.32 (the exiting-firm counterfactual).

that mergers themselves may facilitate socially desirable restructuring well before formal failure becomes inevitable.

The existing literature therefore remains fragmented. Research on merger efficiencies rarely engages with the economics of industrial restructuring. Studies of zombie firms seldom discuss merger control. Analyses of declining industries generally ignore merger policy altogether, while the rapidly expanding literature on industrial resilience has evolved largely independently of both industrial organization and competition law. This paper seeks to bridge these previously separate literatures. It argues that restructuring efficiencies constitute a distinct category of merger efficiencies grounded in well-established theories of creative destruction, industrial dynamics, capital reallocation and business dynamism.

III. WHY AND WHITHER AUTHORITIES' SKEPTICISM TOWARDS RESTRUCTURING EFFICIENCIES

The limited role played by restructuring efficiencies in modern merger control is neither accidental nor simply the consequence of legal doctrine. Rather, it reflects the historical evolution of merger policy, the analytical tools developed by industrial organization economists, and the institutional constraints under which competition authorities operate. Understanding why restructuring efficiencies have been largely overlooked therefore requires understanding how contemporary merger analysis itself evolved.

Since the late 1970s, merger control has progressively moved away from formal structural presumptions towards increasingly sophisticated effects-based analysis. This intellectual transformation constitutes one of the major achievements of modern competition economics. Rather than relying exclusively on concentration measures, agencies increasingly analyze diversion ratios, unilateral effects, coordinated effects, entry conditions, merger simulation and quantitative evidence. Modern merger control is therefore considerably better equipped than its predecessors to evaluate the competitive consequences of consolidation.

This analytical progress, however, came with an important limitation. The dominant models were developed primarily to analyze competition among firms that remain active following the merger. Their central objective was to determine how consolidation affects prices, output, quality and, more recently, innovation. Questions

concerning endogenous exit, industrial restructuring, and capital reallocation generally remained outside the scope of these models. Consequently, merger analysis implicitly adopted a relatively stable counterfactual in which firms continued operating independently unless their imminent failure could be demonstrated under the exceptionally demanding conditions of the failing-firm defense.

The resulting framework proved highly successful for conventional horizontal mergers. In industries characterized by stable demand and relatively homogeneous firms, the principal welfare question is indeed whether increased concentration allows firms to exercise greater market power. Under these circumstances, productive efficiencies must be sufficiently large to offset the potential resulting allocative losses. Modern merger guidelines therefore quite naturally evolved towards a framework centered upon productive efficiencies that are merger-specific, verifiable and likely to benefit consumers.

The analytical framework becomes less satisfactory, however, in industries experiencing persistent excess capacity, declining demand, technological disruption or widespread financial distress. In these environments, the relevant economic question is often no longer whether firms remain independent competitors but whether they remain economically viable at all. Yet merger analysis frequently continues to compare the proposed transaction against a counterfactual of continued independent operation even where such a counterfactual may itself be economically implausible.

This tendency reflects not only the structure of economic models but also the institutional incentives facing competition authorities. The first explanation is informational. Merging parties invariably possess considerably more information regarding anticipated efficiencies than competition authorities. Internal business plans, integration strategies, expected cost savings and restructuring opportunities are largely private information. Since efficiencies are inherently forward-looking, authorities have long worried that unverifiable efficiency claims could become a convenient vehicle through which anticompetitive mergers escape effective scrutiny. This concern explains the emphasis placed by every major merger regime on merger specificity, verifiability and timely consumer benefits.

A second explanation concerns judicial review. Competition authorities must defend their decisions before courts applying demanding evidentiary standards. Conventional theories of harm rely primarily upon observable evidence – market shares, diversion ratios, pricing data and internal documents – which courts can readily evaluate. Restructuring efficiencies, by contrast, frequently depend upon events that never actually occur: capacity that would otherwise have remained open, assets that would have been destroyed rather than redeployed, investment that would never have taken place, or exit decisions that would have occurred only years later. Such counterfactuals are inherently more difficult both to establish and to refute.

Finally, merger control has historically developed independently from other branches of economics concerned with industrial dynamics. During precisely the period in which industrial organization, macroeconomics, and corporate finance were developing increasingly sophisticated theories of entry, exit, creative destruction, business dynamism and capital reallocation, merger policy remained focused primarily upon static competition among incumbent firms. The two literatures therefore evolved largely in parallel rather than together.

Recent developments suggest that this equilibrium is beginning to change. The growing policy emphasis on productivity, industrial competitiveness and resilience has drawn increasing attention to the importance of efficient restructuring. The European Commission’s review of the Horizontal Merger Guidelines explicitly invites discussion of competitiveness, resilience and investment,¹⁶ while the Competition and Markets Authority has recognized that dynamic efficiencies associated with investment and long-run rivalry deserve closer analytical attention.¹⁷ At the same time, the expanding literature on zombie firms, business dynamism and declining industries

¹⁶ European Commission, *Draft Merger Guidelines – Text for Public Consultation* (30 April 2026), paras 13(c), 293–294 and 324–338. The draft states expressly that the forward-looking assessment of efficiencies should give adequate weight to innovation, investment and the resilience of the internal market.

¹⁷ Competition and Markets Authority, *Draft Revised Merger Efficiencies Guidance: Consultation Document* (3 June 2026), paras 3.38–3.51 (recognising that dynamic efficiencies may increase the ability or incentive of merging firms to innovate, invest or undertake R&D and may deliver substantial consumer benefits, productivity and economic growth).

has highlighted the substantial welfare costs associated with delayed restructuring.¹⁸

These developments do not imply that agencies should abandon their traditional skepticism. On the contrary, the informational problems that originally justified caution remain entirely valid. What they do suggest is that the existing analytical framework has become incomplete. The challenge is therefore not to lower evidentiary standards, but to develop methods capable of distinguishing genuine restructuring efficiencies from speculative assertions while preserving the administrability that has made modern merger control successful. The remainder of this paper argues that such a framework can indeed be constructed. It first reviews the theoretical and empirical foundations of restructuring before examining how these insights may be incorporated into merger analysis through a structured assessment of restructuring efficiencies.

IV. ORDERLY VS DISORDERLY EXIT

A. What is Orderly Exit?

An “orderly exit” is a process in which productive assets leave the market – or are redeployed – without unnecessary destruction of economic value.

It has several characteristics, including: capacity reductions occur gradually; customers continue to be served; investment incentives remain intact; suppliers have time to adjust; complementary assets remain together; financing markets remain functional. Orderly exit minimizes adjustment costs.

B. What is Disorderly Exit?

“Disorderly exit” occurs when adjustment is delayed until firms become financially distressed. Typical symptoms are: fire sales; bankruptcies; sudden capacity withdrawals; supply interruptions; loss of

¹⁸ See, e.g., Ryan A. Decker, John Haltiwanger, Ron S. Jarmin and Javier Miranda, ‘Changing Business Dynamism and Productivity: Shocks versus Responsiveness’, 110 *American Economic Review* 3952–3990 (2020); Ufuk Akcigit and Sina T. Ates, ‘Ten Facts on Declining Business Dynamism and Lessons from Endogenous Growth Theory’, 13 *American Economic Journal: Macroeconomics* 257–298 (2021); Adalet McGowan, Andrews and Millot (2018), cited above; Takahashi (2015), cited above.

organizational capital; destruction of intangible assets; credit tightening; panic among customers and suppliers.

Suppose demand falls every year, but capacity, however, is largely fixed. Suppose further that firms (a) have very high fixed costs, relatively low marginal costs, and long-lived assets that have few alternative uses; (b) face substantial shutdown costs, significant environmental liabilities, or strong local political resistance to closure.

Every producer prefers another producer to close first. Closing a plant is individually costly but it may benefit the remaining competitors through stronger margins, as higher capacity utilization allows fixed costs to be spread over larger production volumes. The benefit is largely externalized, which creates exactly a classic war-of-attrition problem.

If the industry consists of many small firms, adjustment becomes even slower. Each individual producer internalizes only a tiny fraction of the benefits created by reducing capacity. The incentive to exit is therefore extremely weak. Moreover, small firms often have characteristics that delay exit: family ownership; local employment objectives; emotional attachment to plants; relationships with regional banks; local government support; willingness to operate with very low returns. The consequence is persistent overcapacity.

Ironically, the more fragmented the industry, the less likely efficient exit becomes. In these environments, competition does not produce rapid restructuring. Instead, it produces prolonged value destruction. Over time, capacity remains excessive, utilization falls, profits disappear, maintenance is deferred, investment stops, balance sheets deteriorate, credit conditions tighten, and eventually several firms may become distressed simultaneously.

Distressed industries are particularly vulnerable to a wide range of shocks (including energy cost, inflation, trade constraints, etc.). In these circumstances, once lenders begin refusing refinancing – or a recession accelerates demand decline – the equilibrium changes dramatically. Plants are closed faster than ever and in short notice. Customers suddenly worry about security of supply. Orders shift. Banks tighten lending. The industry experiences precisely the type of

disorderly exit observed repeatedly in steel,¹⁹ shipping,²⁰ coal,²¹ and portions of the paper sector²².

V. ESTIMATING THE EXPECTED COST OF DISORDERLY EXIT

Consider an industry in which two exit paths are possible: orderly exit (*scenario O*) and disorderly exit (*scenario D*). *Scenario O* corresponds to the orderly adjustment scenario. Capacity is closed gradually and efficiently. Production shifts to lower-cost production facilities. Customers receive notice, can switch suppliers, and surviving firms maintain investment and working capital. *Scenario D* corresponds to disorderly exit. Several firms or production facilities exit within a short period. Capacity disappears faster than demand, customers scramble for supply, inventories are depleted, lead times lengthen and prices spike.

The expected consumer welfare could be computed as

$$\mathbb{E}[CS] = p_O CS_O + p_D CS_D$$

where the probability of scenario *O* is $p_O = \Pr(O)$; the probability of scenario *D* is $p_D = \Pr(D)$; CS_O is consumer welfare under orderly exit; CS_D is consumer welfare under disorderly exit.

Given that $p_O + p_D = 1$, we have

$$\mathbb{E}[CS] = CS_O + p_D \Delta CS_D,$$

where $\Delta CS_D = CS_D - CS_O$ measures the welfare cost of disorderly exit as the consumer welfare loss *relative* to an orderly restructuring

¹⁹ The European Steel Association (Eurofer) press release, *European steel industry on the brink: the EU must act now or risk losing manufacturing, warns EUROFER*, see <https://www.eurofer.eu/press-releases/european-steel-industry-on-the-brink-the-eu-must-act-now-or-risk-losing-manufacturing-warns-eurofer>, last accessed on 12 March 2026.

²⁰ See e.g.: <https://www.porttechnology.org/cargotec-to-exit-heavy-cranes-industry-following-merger-fall-through/>.

²¹ See e.g.: <https://www.theguardian.com/australia-news/2022/may/30/agls-coal-implosion-shows-what-a-disorderly-transition-to-clean-energy-looks-like>.

²² See e.g.: <https://www.sheridan.com/insights/paper-market-update-september-2025/>, last accessed on 17/07/2026.

counterfactual conditional on that scenarios. The “expected disorderly-exit cost” is then the product of the probability of disorderly-exit, p_D , and the “consumer welfare loss conditional on disorderly exit”, ΔCS_D .

A. Estimating the Probability of Disorderly Exit

The probability of disorderly exit, p_D , could be derived from a “hazard model” of firm exit, supplemented by common-shock scenarios. For firm i , we define the probability of exit over horizon t as:

$$h_{it} = \Pr(\text{Exit in } t \mid \text{Survival until } t).$$

This hazard would depend on many factors, including: firm i ’s operating losses; capacity-utilization rates; position on the industry cost curve; cash costs relative to expected prices; debt maturities and covenant headroom; maintenance and environmental-capex requirements; working-capital needs; customer concentration; age and flexibility of machinery; ownership structure and access to external finance; etc..

The probability of disorderly exit is, therefore,

$$p_D = \Pr(D) = \Pr\left(\sum_i K_i^{\text{exit}} > K^{\text{safe}}\right),$$

where K_i^{exit} is the capacity lost if firm i exits, and K^{safe} is the amount of excess or readily replaceable capacity. Exit becomes disorderly when lost effective capacity exceeds the market’s ability to absorb closures without shortages or severe disruption.

While an initial firm-level probability of distress could be estimated from credit spreads, ratings, distance-to-default measures, or lender evidence, disorderly exit is a “system event,” not merely the sum of individual insolvency probabilities. Assuming independent exits would materially understate the risk of disorderly exit. Firms often face common shocks: the same demand decline; the same cost shocks; the same financial constraints; the same environmental regulation; the same risk of customer insolvencies; the same probability of sudden changes in imports or trade policy.

Thus,

$$p_D = \Pr(D) = \Pr\left(\sum_i X_i K_i > K^{\text{safe}}\right),$$

where $X_i = 1$ when firm i exits and the X_i 's are correlated, and K_i is installed capacity. This could be estimated through correlated Monte Carlo simulations; a reduced-form industry stress test; a structural war-of-attrition model; historical transition probabilities calibrated from previous industry downturns. A practical stress test would impose combinations of shocks, for example: demand decline, input-cost shock, and credit spread shock. For each scenario, one could project firm cash flows, covenant breaches, refinancing failures and closure decisions.

Of course, nominal installed capacity K_i is not the right metric. What matters is “effective deliverable capacity:”

$$K_i^{\text{effective}} = K_i u_i r_i c_i,$$

where:

- u_i is feasible utilization;
- r_i is operational reliability;
- c_i measures product and geographic compatibility with customer demand.

A firm may have nominal capacity but be unable to replace another firm's capacity because of technical constraints (including lack of certifications or technical capabilities), is geographically remote, cannot increase shifts. The relevant post-exit capacity margin is therefore:

$$M = \sum_i X_i K_i^{\text{effective}} - K^{\text{safe}},$$

so that,

$$p_D = \Pr(D) = \Pr(M \leq 0).$$

B. Quantifying the Conditional Consumer Harm of Disorderly Exit

Conditional on disorderly exit, consumer harm relative to an orderly exit counterfactual has several components. The most direct component is the “price effect”:

$$\Delta CS_D^P = - \int_{P_O}^{P_D} Q(P) dP,$$

where $Q(P)$ is demand at price P , P_O is the price under orderly adjustment, and P_D the price under disorderly exit. With a linear approximation:

$$\Delta CS_D^P \approx -\frac{1}{2}(Q_O + Q_D)(P_D - P_O).$$

where Q_O is demand at P_O , Q_D is demand at P_D .

When supply is insufficient, some customers cannot purchase the required quantity. The impact of rationing on consumer welfare is given by:

$$\Delta CS_D^R = - \int_{Q_D}^{Q_O} [P^D(Q) - P_D] dQ,$$

where $P^D(Q)$ is the inverse demand function in the disorderly exit scenario (i.e. when distressed exit occurs). In practice, ΔCS_D^R could be estimated using customers' willingness to pay, emergency procurement costs, or the value of lost output downstream.

In addition, customers may need to test, certify or redesign their products when switching suppliers in a disorderly exit scenario. Let S_j denote customer j 's switching costs. These can include the costs of new technical qualification and machine recalibration; the cost of changes in packaging or printing processes; transport and logistics costs; contract renegotiation costs; and temporary quality losses. Let q_j^{switch} the probability of incurring those costs in case of disorderly exit. Then, disorderly exit also reduces consumer welfare by:

$$\Delta CS_D^S = - \sum_j q_j^{\text{switch}} S_j.$$

Disorderly exit may also reduce consumer welfare if it causes longer lead times. One can write:

$$\Delta CS_D^L = - \sum_j v_j^{\text{delay}} \Delta L_j,$$

where ΔL_j measures the increase lead times, and v_j^{delay} is the cost of a delay per unit of time. Useful empirical proxies include expedited shipping, emergency inventories, production stoppages and contractual penalties. In addition, disorderly exit may eliminate specialized products or local service capacity. This welfare effect could be estimated through discrete-choice demand models, willingness-to-pay estimates for product characteristics, observed switching patterns, or the cost of reformulating downstream products. For intermediate goods such as paper or steel, consumer welfare may also be affected indirectly through downstream markets. If e.g. paper shortage reduces output of packaging, publishing, hygiene products or industrial users, the relevant loss is not merely the higher paper price. It includes the lost downstream surplus.

A one-month supply shock caused by massive and disordered exit and a three-year contraction cannot be treated equally. The present value of incremental disorderly-exit harm is:

$$\Delta CS_D = \sum_{t=0}^T \frac{\Delta CS_{Dt}^P + \Delta CS_{Dt}^R + \Delta CS_{Dt}^S + \Delta CS_{Dt}^L + \Delta CS_{Dt}^V}{(1+r)^t},$$

where ΔCS_D is the present value of consumer losses under disorderly exit relative to orderly exit, T is the duration of the disruption, and r the interest rate. The welfare cost is obviously increasing in T . In some industries, $T \rightarrow \infty$, since exit will lead to complete switching away from the products in question. This applies in particular to industries where the decline in demand that would trigger the exit episode is driven by technological factors. For example, the digitalization of the downstream industry for the paper industry. When customers switch away from paper to digital, the change is irreversible. However, temporary disruptions may still have substantial welfare effects if demand is inelastic and switching costs are large. Note, in particular, that risk-averse customers, or customers facing convex disruption costs, may suffer not only from a higher expected price but also from price volatility and supply uncertainty. Thus, a volatile path involving occasional shortages can be worse than a stable path with the same average price. This is especially important where customers hold limited inventories or face high costs from production interruptions.

VI. RESTRUCTURING MERGER EFFICIENCIES

A merger may transform a disorderly adjustment into an orderly one. When firms remain independent, each has incentives to postpone painful restructuring. Each hopes that rivals will exit first. This is exactly the war-of-attrition logic. Consequently, everybody waits, until everybody is forced to leave. The adjustment becomes abrupt rather than gradual. A merger internalizes this coordination problem. The merged firm can decide which plants should close; coordinate production across remaining facilities; preserve customer relationships; retain skilled workers; maintain investment; avoid financial distress. The same quantity of capacity eventually disappears, but the path is entirely different.

This generates several efficiency channels. First, mergers can preserve organizational capital. Liquidations destroy knowledge. Mergers often preserve it. Second, they are likely to reallocate capital more efficiently. Assets are transferred as functioning businesses rather than sold piecemeal. They may involve lower adjustment costs, as workers, suppliers and customers adapt gradually, and greater investment incentives, since firms knowing that efficient exit mechanisms exist are more willing to invest *ex ante*. They may also result in greater industry resilience by favoring orderly exit. Orderly exit creates resilience. Industries become more capable of absorbing shocks precisely because adjustment occurs orderly rather than disorderly.

Restructuring efficiencies arise when a merger internalizes the external benefits of capacity reduction in declining industries, allowing socially desirable exit to occur earlier, more gradually, and with less destruction of organizational capital than would occur through decentralized decision-making. This differs from traditional cost efficiencies. No production technology changes. Instead, the merger improves the timing and coordination of exit decisions. If a merger would not result in higher prices, then restructuring efficiencies will always increase consumer-welfare. If instead a merger would result in somewhat higher prices, consumers could still benefit from greater security of supply; fewer bankruptcies; continued investment; preservation of technical know-how; avoidance of sudden shortages; and more reliable long-term contracting. The welfare question becomes intertemporal rather than static.

In short, in industries characterized by e.g., persistent demand decline, high fixed costs, excess capacity, significant exit barriers, and fragmented ownership, horizontal mergers may improve consumer welfare by internalizing restructuring externalities and transforming disorderly industry contraction into orderly adjustment. The efficiency becomes more plausible when demand decline is persistent, excess capacity is structural rather than cyclical, exit costs are high and largely irreversible, ownership is fragmented among many small firms, organizational capital would be lost through liquidation, and the merged firm has sufficient scale to internalize a meaningful share of the industry-wide benefits from capacity rationalization.

Let $m \in \{M, N\}$ denote the merger and no-merger regimes, respectively; $p_D^m = \Pr(D \mid m)$ denote the probability of disorderly exit under regime m ; $CS_O(m)$ be the present value of consumer loss under orderly adjustment under regime m ; and $CS_D(m)$ be the corresponding loss conditional on disorderly exit. By construction, $CS_D(m) > CS_O(m)$. Expected consumer welfare under regime m is

$$\mathbb{E}[CS(m)] = CS_O(m) + p_D^m \Delta CS_D(m),$$

where $\Delta CS_D(m) = CS_D(m) - CS_O(m) > 0$ is the additional consumer harm caused by disorderly rather than orderly restructuring.

A merger is procompetitive in expected-consumer-welfare terms whenever $\mathbb{E}[CS(M)] > \mathbb{E}[CS(N)]$. That is, when

$$CS_O(M) + p_D^M \Delta CS_D(M) > CS_O(N) + p_D^N \Delta CS_D(N).$$

Rearranging,

$$\underbrace{p_D^M \Delta CS_D(M) - p_D^N \Delta CS_D(N)}_{\text{Resilience Benefit}} > \underbrace{CS_O(N) - CS_O(M)}_{\text{Static Welfare Loss}}.$$

This equation is the central welfare condition. Its right-hand side measures the merger's consumer cost in the orderly state – for example, the potential effect of reduced rivalry on prices when restructuring proceeds without disruption. Its left-hand side measures the reduction in expected consumer losses from disorderly exit driven by the merger. This is the merger's expected resilience benefit. The merger is therefore procompetitive when the expected resilience benefit exceeds any consumer harm arising in the orderly state.

Suppose first that consumer welfare under orderly adjustment is approximately the same with and without the merger: $CS_O(M) \approx CS_O(N)$. Suppose also, initially, that the incremental loss conditional on disorderly exit is approximately invariant across regimes: $\Delta CS_D(M) \approx \Delta CS_D(N) = \Delta CS_D < 0$. Then, the central welfare condition reduces approximately to

$$[p_D^M - p_D^N] \Delta CS_D > 0.$$

So the merger is procompetitive whenever

$$p_D^M < p_D^N.$$

That is, when the merger has little or no effect on consumer welfare in the orderly state, any reduction – however marginal – in the probability of disorderly exit produces a positive expected welfare benefit. The fact that the probability difference may be small does not mean the resulting welfare benefit is economically unimportant. A marginal probability reduction can have a substantial expected value when the conditional cost of disorderly exit, ΔCS_D , is large. Thus, the larger the shortage, rationing, switching, downstream-disruption and volatility losses conditional on disorderly exit, the greater the value of even a small reduction in its probability.

Suppose, instead, that $CS_O(M) < CS_O(N)$ and define the merger's consumer harm in the orderly-adjustment state as

$$\Delta CS_O = CS_O(M) - CS_O(N) < 0.$$

If the incremental cost of disorderly exit is common across regimes, $\Delta CS_D(M) \approx \Delta CS_D(N) = \Delta CS_D < 0$, then the central welfare condition becomes

$$[p_D^M - p_D^N] \Delta CS_D > -\Delta CS_O.$$

Equivalently, the merger is procompetitive whenever

$$p_D^M < p_D^N - \frac{\Delta CS_O}{\Delta CS_D} < p_D^N.$$

For every negative but bounded orderly-state cost ΔCS_O , there is a reduction in the probability of disorderly exit large enough to make the merger procompetitive. The threshold has an intuitive

interpretation: it increases with the ordinary competitive harm caused by the merger; it decreases with the severity of disorderly exit. Thus, in case of an extreme and catastrophic disorderly exit (e.g., if exit results in significant and persistent supply shortages followed by price spikes), a relatively small probability reduction may outweigh a material ordinary-state price effect.

There is, however, one necessary mathematical qualification to the proposition. Since a probability cannot fall below zero, the maximum attainable probability reduction is p_D^N . Therefore, a probability reduction capable of offsetting ΔCS_O exists only if

$$p_D^N \Delta CS_D > -\Delta CS_O.$$

The left-hand side is the entire expected incremental disorderly-exit loss that could be eliminated by reducing p_D^N to zero. If the merger's ordinary-state harm exceeds that amount, no feasible probability reduction can make the merger procompetitive. In conclusion,

Proposition. *For every positive increase in orderly-state consumer costs that is smaller than the maximum avoidable expected loss from disorderly exit, there exists a reduction in the conditional probability of disorderly exit sufficient to render the merger procompetitive.*

In the general case, the merger is procompetitive whenever $\Delta CS_D(M) \neq \Delta CS_D(N)$, the central welfare condition becomes

$$p_D^M \Delta CS_D(M) - p_D^N \Delta CS_D(N) > -\Delta CS_O.$$

Solving for the post-merger probability gives

$$p_D^M < p_D^N \frac{\Delta CS_D(N)}{\Delta CS_D(M)} - \frac{\Delta CS_O}{\Delta CS_D(M)} < p_D^N.$$

A feasible threshold exists provided that

$$p_D^N \Delta CS_D(N) > -\Delta CS_O.$$

This formulation allows for the possibility that disorderly exit, if it nevertheless occurs after the merger, may be more costly: $\Delta CS_D(N) < \Delta CS_D(M)$. The merger can still be procompetitive. It simply must reduce the probability of disorderly exit by more. Conversely, if consolidation makes any residual disorderly exit less damaging – for example, because the merged firm can transfer

customers, production and technical knowledge across a broader portfolio – the required probability reduction is smaller. It follows that a merger can improve resilience by reducing the probability of disorderly exit, reducing its severity, or both.

The condition can be further generalized if there is a third exit path: the prolonged zombie equilibrium (*scenario Z*). In *scenario Z*, too many production facilities remain active. Prices may stay low temporarily, but utilization, maintenance, quality and investment deteriorate. The probability of *scenario Z* is $p_Z = \Pr(Z)$; and CS_Z is consumer welfare under the zombie equilibrium.

p_O , p_Z and p_D denote orderly adjustment, zombie persistence and disorderly exit. Expected consumer welfare under regime m is

$$\mathbb{E}[CS(m)] = p_O(m)CS_O(m) + p_Z(m)CS_Z(m) + p_D(m)CS_D(m),$$

where $p_O(m) + p_Z(m) + p_D(m) = 1$. Then, the merger is procompetitive if

$$\sum_{j \in \{O, Z, D\}} p_j(M)CS_j(M) > \sum_{j \in \{O, Z, D\}} p_j(N)CS_j(N).$$

This is the fully general expression. It captures two benefits that the binary version misses. First, the merger may shift probability mass from disorderly exit to orderly adjustment; and it may shorten or avoid the prolonged zombie equilibrium.

VII. CONCLUDING REMARKS

Modern merger policy represents one of the great successes of applied economics. Over the past four decades, competition authorities have progressively replaced simple structural presumptions with increasingly sophisticated analyses of unilateral effects, coordinated effects, entry, innovation and efficiencies. As a consequence, merger control today rests upon far stronger economic foundations than at any previous point in its history.

Yet, in our opinion these foundations remain asymmetric – they are highly developed for the assessment of mergers in growing or stable markets but they are almost entirely missing for assessment of mergers in declining industries. This is indeed surprising because during precisely the period in which merger economics became

increasingly sophisticated, industrial organization, macroeconomics and corporate finance fundamentally transformed economists' understanding of industrial restructuring. Research on creative destruction, firm dynamics, business dynamism, zombie firms, and capital reallocation, has shown that productivity growth depends not only upon competition among incumbent firms, but also upon the continual restructuring of industries. Entry, expansion, contraction and exit are now recognized as integral components of the competitive process itself.

Merger policy has incorporated only part of these developments. While authorities increasingly recognize productive and innovation efficiencies, comparatively little attention has been devoted to restructuring efficiencies. Existing merger analysis continues to evaluate many transactions against counterfactuals that implicitly assume continued independent operation even where long-run economic viability is uncertain. As a result, mergers capable of facilitating socially valuable restructuring may receive insufficient recognition, particularly in industries characterized by persistent excess capacity, declining demand, or significant coordination failures.

Policymakers throughout Europe have expressed concerns regarding industries with significant economic value that are characterized by persistent weak productivity growth, declining business dynamism, industrial fragmentation, and insufficient investment. The competitiveness of these industries depends upon efficient industrial adjustment as much as upon preserving rivalry among incumbent firms. For example, the paper and steel industries provide natural applications of the restructuring-efficiencies framework.

The paper industry is characterized by several conditions (e.g., structural and irreversible declining demand, structural excess capacity, high fixed costs, fragmented ownership reinforces the war-of-attrition problem) that make disorderly adjustment particularly likely and pronounced. In this context, a merger could be procompetitive if it manages to change the timing, sequencing and form of capacity exit.

The steel industry is instead characterized by enormous sunk costs, high fixed operating costs, long-lived assets, and severe closure costs. The industry is exposed to several correlated shocks: cyclical demand, energy and raw-material prices, imports, trade measures,

carbon prices, environmental regulation and the substantial capital requirements associated with decarbonization. These common shocks make independent firm failures correlated. In this context, a merger could be procompetitive if it permits the closure of one blast furnaces while shifting volumes to more efficient facilities; coordinate major maintenance and relining schedules; pool scarce capital for decarbonization; preserve specialized production capabilities; maintain credible long-term contracts with downstream users; and reduce the likelihood that several financially fragile plants close after the same energy, credit or demand shock.

The central contribution of this paper has been to argue that restructuring efficiencies deserve explicit analytical recognition within merger control. They do not replace conventional productive or innovation efficiencies, nor do they diminish the importance of preventing market power. Instead, they complement existing efficiency analysis by recognizing a broader class of dynamic welfare effects arising from the orderly reallocation of productive resources.

This does not imply lower evidentiary standards. On the contrary, because such efficiencies are inherently forward-looking, they require particularly careful analysis. The appropriate response is therefore neither automatic acceptance nor categorical skepticism. It is the development of a structured evidentiary framework capable of distinguishing genuine restructuring efficiencies from speculative assertions. Throughout the paper we have argued that this can be achieved by focusing on observable economic mechanisms, realistic counterfactuals and transparent standards of proof.

Viewed from this perspective, the debate over restructuring efficiencies is not simply another discussion about merger defenses. It is part of a broader evolution in competition economics. As economists increasingly recognize that long-run prosperity depends upon efficient industrial adjustment, merger control must also broaden its analytical framework. Doing so would not weaken competition policy. Rather, it would align merger control more closely with the modern economics of industrial dynamics while preserving its central commitment to protecting consumers from durable market power.

Ultimately, the objective of merger policy should not be to preserve competitors irrespective of their economic viability, nor to facilitate consolidation for its own sake. Its objective should be to preserve

and promote the competitive process itself. In dynamic economies, that process is characterized not only by rivalry among incumbent firms but also by the continual reallocation of productive resources towards their most valuable uses. A merger policy capable of apprehending both dimensions of competition will be better equipped to promote productivity, innovation and long-run consumer welfare than one concerned exclusively with preserving existing market structures.