ACQUIHIRES: WHAT ECONOMICS TELLS REGULATORS

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By Jean-Michel Benkert, Igor Letina & Shuo Liu

Acquihires — deals driven primarily by the acquisition of talent — have often been argued to be relatively harmless features of the startup ecosystem. Yet in today's AI landscape, where elite technical teams are scarce and hiring increasingly resembles acquisition, these transactions warrant closer scrutiny. A recent twist, the "reverse acquihire," allows incumbents to hire a startup's team while compensating its investors through substantial licensing or services agreements. These arrangements replicate the economics of a takeover while potentially avoiding merger review. Emerging research points to two risks specific to (reverse) acquihires: inefficient talent hoarding and increased monopsony power in labor markets, even when firms are not product-market rivals. These concerns come on top of classic issues around the loss of potential competition and shifts in innovation incentives. We synthesize this evidence and offer guidance on how authorities can evaluate acquihires within the broader framework of startup acquisition policy.

Acqui-hires — deals driven primarily by the acquisition of talent — have often been argued to be relatively harmless features of the startup ecosystem. Yet in today's AI landscape, where elite technical teams are scarce and hiring increasingly resembles acquisition, these transactions warrant closer scrutiny. A recent twist, the "reverse acquihire," allows incumbents to hire a startup's team while compensating its investors through substantial licensing or services agreements. These arrangements replicate the economics of a takeover while potentially avoiding merger review. Emerging research points to two risks specific to (reverse) acquihires: inefficient talent hoarding and increased monopsony power in labor markets, even when firms are not product-market rivals. These concerns come on top of classic issues around the loss of potential competition and shifts in innovation incentives. We synthesize this evidence and offer guidance on how authorities can evaluate acquihires within the broader framework of startup acquisition policy.

Historically, merger control has targeted M&As only when they threatened *current* competition. Because startups typically hold tiny or no market shares, their acquisitions were seldom challenged.[2] That stance has shifted as merger-control agencies increasingly weigh *potential* competition. The importance of this new type of competition has been famously documented in the pharmaceutical sector by Cunningham, Ederer & Ma.[3] They estimate that 5.3–7.4 percent of acquisitions are "killer acquisitions" that suppress future competition. Moreover, the share of VC-backed startups that exit via an acquisition relative to those that pursue an IPO has dramatically increased since the late 1990s.[4] Against this backdrop, closer scrutiny of startup acquisitions has gained traction, as reflected in recent initiatives by the US Federal Trade Commission and the European Commission.[5]

Critics counter that such increased vigilance is misplaced because many startup deals are really acquihires, transactions motivated by talent, not market power. The 2010 purchase of Drop.io by Facebook illustrates the point: despite Drop.io's success in 2009, Facebook shut the product and reassigned the CEO after the deal.[6] The product was "killed," but the motive plausibly differed from a killer acquisition. Yet, does that make the acquisition benign? We will argue that even if the main objective of the acquirer is to get access to the talented employees of the startup, such acquisitions can still lead to inefficient outcomes.

Recently, a new variant of acquihire has emerged in the field of AI startups: reverse acquihires. In this case, incumbents hire a start-up's core team and pair it with a generous license/services agreement. Some view these transactions as an attempt by the large tech firms to avoid scrutiny by the competition authorities, while replicating the economic outcomes of standard acquisitions.[7] These deals are often large, and their relative prevalence warrants policymakers' attention, particularly in the context of merger control.

New economic research has pointed out two potential risks that are specific to acquihires and reverse acquihires. First, Benkert, Letina & Liu show that firms can profitably engage in acquihires in order to hoard talent, that is to prevent the competitors from finding and employing talented workers.[8] This is likely to be the case when talent is an important asset that happens to be scarce, which appears to describe the current situation in the AI field. The second risk applies when there isn't much competition for the employees of the startup. Namely, if the incumbent and the startup are the main potential employers for the startup's workers, then the incumbent might be willing to acquire the startup in order

2 Kevin A. Bryan & Erik Hovenkamp, "Antitrust Limits on Startup Acquisitions," *Review of Industrial Organization* 56, no. 4 (2020): 615–636.

3 Colleen Cunningham, Florian Ederer & Song Ma, "Killer Acquisitions," *Journal of Political Economy* 129, no. 3 (2021): 649–702.

4 Florian Ederer & Bruno Pellegrino, "The Great Start-up Sellout and the Rise of Oligopoly," *AEA Papers and Proceedings* 113 (2023): 274–278.

5 FTC, *FTC to Examine Past Acquisitions by Large Technology Companies* (2020), https://www.ftc.gov/news-events/news/press-releases/2020/02/ftc-examine-past-acquisitions-large-technology-companies; FTC, *Non-HSR Reported Acquisitions by Select Technology Platforms*, 2010–2019 (2021), https://www.ftc.gov/system/files/documents/reports/non-hsr-reported-acquisitions-select-technology-platforms-2010-2019-ftc-study/p201201technologyplatformstudy2021.pdf; European Commission, *Commission Guidance on the Application of the Referral Mechanism Set Out in Article 22 of the Merger Regulation to Certain Categories of Cases* (2021), https://ec.europa.eu/competition/consultations/2021_merger_control/guidance_article_22_referrals.pdf.

6 Webware staff, "Webware 100 Winner: Dropio," *CNET* (May 2009), https://www.cnet.com/tech/services-and-software/webware-100-winner-dropio/; Adam Fisher, "50 Best Websites 2009," *Time* (2009), https://content.time.com/time/specials/packages/article/0,28804,1918031_1918016_1917994,00.html; Caroline McCarthy, "Facebook Acquires Simple File-Sharing Service Drop.io," *CNET* (Oct. 2010), https://www.cnet.com/culture/facebook-acquires-file-sharing-service-drop-io/?search=toapp.

7 Maria Deutscher, "Amazon Hires Founders of AI Robotics Startup Covariant," *SiliconANGLE* (Sept. 2024), https://siliconangle.com/2024/09/02/amazon-hires-founders-ai-robotics-startup-covariant/; Madhumita Murgia & Camilla Hodgson, "Microsoft's Hiring of Inflection AI Staff Probed by UK Regulator," *Financial Times* (July 2024), https://www.ft.com/content/26beb467-9eef-41a1-b7c7-fd6c7babff85; Alex Heath, "This Is Big Tech's Playbook for Swallowing the AI Industry," *The Verge* (July 2024), https://www.theverge.com/2024/7/1/24190060/amazon-adept-ai-acquisition-playbook-microsoft-inflection; Jonathan Kanter, "Billion-Dollar 'Acqui-Hires' Are Bad for Competition," *Financial Times* (2025), https://www.ft.com/content/1d7075d4-12f3-404e-8667-7ef42e715a4e.

8 Jean-Michel Benkert, Igor Letina & Shuo Liu, "Startup Acquisitions: Acquihires and Talent Hoarding," *European Economic Review* 178 (2025): 105103.

to not compete with it for the workers. Thus, an acquihire is a way to increase incumbent's monopsony power on the labor market. This risk is studied in Bar-Isaac, Johnson & Nocke.[9]

Any discussion of stricter control of acquihires and reverse acquihires will inevitably include a debate about the innovation effect of such policy. At this point it should be noted that both acquihires and reverse acquihires are a type of startup acquisition, so that we can look at the (by now quite developed) literature on innovation effects of startup acquisitions for insights on how control of acquihires might affect the incentive to innovate.

As we will discuss in more detail below, innovation effects are not unambiguous. On the one hand, the prospect of being bought gives founders an exit route, which can encourage innovation, and enables incumbents to scale promising technologies faster than many startups could on their own. On the other hand, repeated takeovers by dominant firms can dull incentives to challenge incumbents, steer effort toward "acquirable" incremental projects, and in extreme cases eliminate the very lines of research that would have disciplined market power. In AI in particular, where top teams are scarce and their work can reshape entire markets, how large incumbents buy or hire away startups is therefore central to both competition and long-run innovation.

In light of this, the article focuses on a narrow but increasingly important question: how should competition authorities think about acquihires and reverse acquihires in startup-rich industries such as AI? This article does three things. First, we discuss efficiency concerns which are specific to acquihires and reverse acquihires. Second, we stress that acquihires and reverse acquihires are particular instances of startup acquisitions, and that economic lessons from the broader literature on startup acquisitions apply also to acquihires and reverse acquihires. We also briefly summarize the most relevant insights of this literature. Third, we conclude with practical policy conclusions stemming from the available economic research.

I. WHAT ARE (REVERSE) ACQUIHIRES AND WHY DO THEY MATTER?

We begin by clarifying terminology and establishing the relevance of acquihires. As the name suggests, acquihires are characterized by their driving motive: the acquisition of talent. Regular acquihires constitute proper acquisitions of the startup and its assets. By contrast, in the case of reverse acquihires, the incumbent does not buy the corporate shell. Instead, it hires the target's team while simultaneously entering a substantial licensing or commercial agreement with the startup, or rather with the remaining shell entity. The licensing agreement functions as a de facto purchase price that compensates investors and remaining employees (which might be important in the world of VCs and start-ups, see Coyle and Polsky).[10] Because the economic substance mirrors a standard acquihire, many observers view these deals as designed to avoid merger-control scrutiny formally tied to corporate acquisitions.[11] As such, the term "reverse acquihire" is something of a misnomer and a better name would be "stealth acquihire." However, the term "reverse acquihire" has by now become sufficiently widespread that we will use it as well.

While classic acquihires were popular in the tech sector in the early 2010s, reverse acquihires have surged recently in the AI space. Table 1 below lists illustrative examples of high-profile reverse acquihires in AI. The deals typically involve large sums, often in the hundreds of millions or even billions of dollars, reflecting the high stakes in acquiring top AI talent and technology. In this context, it is important to note that talent is a real, and perhaps the most important, asset of AI startups. Since acquisitions of significant assets fall under merger control both in the U.S. and in the EU, there is a case that at least some "reverse acquihires" also fall within the scope of merger control. In fact, UK's CMA has investigated the Microsoft/Inflection AI deal, and even though the deal was cleared, this demonstrates the willingness of authorities to look into such arrangements.[12]

9 Heski Bar-Isaac, Justin P. Johnson & Volker Nocke, "Acquihiring for Monopsony Power," *Management Science* 71, no. 4 (2025): 2751–3636.

10 John F. Coyle & Gregg D. Polsky, "Acqui-Hiring," *Duke Law Journal 63*, no. 2 (2013): 281–346.

11 Jonathan Kanter, *supra*.

12 Jonathan Kanter *supra*; Madhumita Murgia & Camilla Hodgson, "Microsoft's Hiring of Inflection AI Staff Probed by UK Regulator," *Financial Times* (July 2024), https://www.ft.com/content/26beb467-9eef-41a1-b7c7babff85.

Illustrative reverse acquihire–style deals in AI.

Table 1

Date	Incumbent	Startup	Reported Fee
Mar 2024	Microsoft	Inflection AI	$650m[13]
Jun 2024	Amazon	Adept AI	–[14]
Aug 2024	Google	Character.AI	$2.7bn[15]
Aug 2024	Amazon	Covariant	–[16]
Jun 2025	Meta	Scale AI	$14.8bn[17]
Jul 2025	Google	Windsurf	$2.4bn[18]

Notes: "Reported fee" reflects publicly reported deal values where available (sometimes slightly different values are reported by different outlets); "–" indicates that no reliable figure has been disclosed. Deals listed involve substantial team transfers often paired with licensing or services agreements, without a full corporate acquisition.

II. CONCERNS SPECIFIC TO ACQUIHIRES

As we have already mentioned, competition concerns that might be raised when examining a standard startup acquisition apply to acquihires as well. In particular, acquihires can eliminate potential competition and affect the incentives of firms to innovate. Those aspects will be examined in the next section. Here, we look at two concerns which are specific to acquihires, and which were examined in recently published economic research. The first concerns talent hoarding by large firms and the second an increase in the labor market monopsony power of the incumbent. It is important to note that both harms can materialize even when the startup and acquirer are neither current nor potential product-market rivals.

Talent hoarding is studied in Benkert et al.[19] They show that when talent is a scarce but important input in the production function of a firm, that firm may be willing to pay large amounts to acquihire talent, even larger than the direct monetary benefits the firm expects to gain from the talented workers. The motivation behind such acquihires is to prevent a competitor from hiring that talent and improving their competitive position on the market. That is, talent hoarding is in essence a preemption mechanism.

Talent hoarding acquihires are most likely when discovery is sequential (one firm spots the talent in the startup before its competitors), when the market structure is characterized by a small number of firms, including settings with an emerging challenger, and when the startup has limited bargaining power. They are less likely when the talent level in the startup is widely known, when match quality firms and workers is easier to verify, or when the startup can bargain for a large share of the surplus.

Competition authorities seeking to block acquihires based on the talent hoarding theory of harm would need to demonstrate that the main motivation behind an acquihire is to prevent a competitor from employing the startup's workers. This could potentially be difficult to do,

13 Madhumita Murgia & Camilla Hodgson, *supra*; Jonathan Kanter, *supra*.

14 Greg Bensinger & Krystal Hu, "Amazon Lures Cofounders from Startup Adept to Bolster AI Efforts," *Reuters* (June 2024), https://finance.yahoo.com/news/amazon-hires-ai-startup-adepts-212217362.html; Ingrid Lunden, "Amazon Hires Founders Away from AI Startup Adept and Inks Licensing Deal," *TechCrunch* (June 2024), https://techcrunch.com/2024/06/28/amazon-hires-founders-away-from-ai-startup-adept/.

15 Reuters, "Google Signs Non-Exclusive Licensing Deal with Character.AI, Founders Join Google DeepMind" (2024), https://www.reuters.com/technology/artificial-intelligence/google-hires-characterai-cofounders-licenses-its-models-information-reports-2024-08-02/; George Hammond, Melissa Heikkilä & Cristina Criddle, "Meta Invests $15bn in Scale AI as It Builds 'Superintelligence' Team," *Financial Times* (June 14, 2025).

16 Maria Deutscher, *supra*.

17 Reuters, "Meta to Pay Nearly $15 Billion for Scale AI Stake, The Information Reports," *Reuters* (June 2025), https://www.reuters.com/business/meta-pay-nearly-15-billion-scale-ai-stake-information-reports-2025-06-10/; Associated Press, "Meta Invests $14.3B in AI Firm Scale and Recruits Its CEO for 'Superintelligence' Team," *AP News* (June 2025), https://apnews.com/article/4b55aabf7ea018e38ffdccb66e37cf26.

18 Reuters, "Google Hires Windsurf Execs in $2.4 Billion Deal to Advance AI Coding Ambitions," *Reuters* (July 2025), https://www.reuters.com/business/google-hires-windsurf-ceo-researchers-advance-ai-ambitions-2025-07-11/.

19 Jean-Michel Benkert, Igor Letina & Shuo Liu, *supra*.

though internal communication might provide the needed evidence. Additionally, the level of uncertainty in the direct value of the acquihired employees for the acquirer provides a useful screening tool for authorities. It is when that uncertainty is high that talent hoarding is most likely and additionally most likely to lead to a decline in expected consumer welfare.

It is worth pointing out that preemption via talent hoarding is different, and more pernicious, than preemption by acquisition of necessary technology/IP, physical inputs or machines. The reason is that labor cannot be licensed or resold in the same way. If a firm has property rights over an asset that a competitor can employ more profitably, then there is at least a possibility that such an asset will be sold or licensed to the competitor. From welfare perspective, this would lead to a transfer of wealth, but no efficiency losses. However, when the "asset" is a team of talented individuals, the best the acquirer can do is to keep people off the market. That asymmetry makes preemptive acquisitions of labor potentially more harmful than preemptive purchases of other assets.

Talent hoarding incentives also likely amplify swings over the business cycle. Hiring of workers (direct and via acquihires) is more exuberant in booms but layoffs are also sharper in downturns. In practice, this means that hoarded employees are likely to experience more volatile employment outcomes than would be the case if talent hoarding incentives were absent.[20] This pattern fits the post-pandemic tech cycle and suggests that, when hiring is driven by preemptive motives rather than genuine productivity gains, workers in those industries bear more employment risk.

The second type of concern, regarding the increase in monopsony power of the acquirer, is studied in Bar-Isaac et al.[21] Their model applies to setting where there are two relevant potential employers for the startup's employees: the acquirer and the startup itself. In such situations, they show that if the acquirer poaches employees directly, it must outbid the startup, often compensating the employees for non-pay benefits they get from working at a startup (mission fit, autonomy, upside, etc.). Under an acquihire, the acquirer first buys the startup and thereby shuts down the most relevant labor-market rival. That move gives rise to monopsony power and lowers wages relative to direct hiring. In baseline models, workers strictly prefer direct hiring, while the acquirer prefers an acquihire because it avoids bidding up wages to reflect those startup-specific benefits. The result can be lower wages and inefficient employment, and these effects survive a range of realistic features such as different bargaining power or team structures.

This mechanism applies even without the non-pay benefits of working at a startup. When the acquirer can credibly threaten aggressive post-failure poaching, bargaining over the acquisition price shifts in its favor, making acqui-hiring cheaper than direct hiring. With enough bargaining power or a high likelihood that poaching would follow a failed deal, the acquirer strictly prefers an acquihire, and workers are still worse off than under direct hiring.

Both of these concerns carry over to the "reverse acquihires." Hiring the team while inking a rich license or services agreement with the startup's shell can recreate the same economics as a standard acquihire: either the talent is removed from the market or the bidding for employees is prevented. The negative effects remain the same as those discussed above, which suggests that authorities should not differentiate between acquihires and reverse acquihires.

Taken together, these two recent papers outline risks that are specific to acquihires and reverse acquihires. Unsurprisingly, those risks revolve around the labor market, and the impact acquihires have either on the matching of talent and firms or on the monopsony power of large firms in the labor market.

III. CONCERNS DUE TO ELIMINATION OF POTENTIAL COMPETITION

The previous section explored concerns which apply even when the acquirer and the startup operate in independent markets. However, it is common for the markets of the acquirer and the target to at least partially overlap. When this is the case, the acquihire, in addition to labor market effects, also eliminates current or potential competition. For example, it is entirely possible for an acquihire (or a reverse acquihire) to be a killer acquisition at the same time. Then, the rationale for prohibiting such an acquisition would be same as the one outlined in Cunningham et al.[22]

20 CNBC, "Tech Companies Were 'Hoarding the Talent,' Says Slow Ventures' Sam Lessin" (2024), https://www.cnbc.com/video/2024/02/06/tech-companies-were-hoarding-the-talent-says-slow-ventures-sam-lessin.html; John Gruber, "Google Is Laying Off 12,000 Employees (6 Percent of Workforce)," *Daring Fireball* (2023), https://daringfireball.net/linked/2023/01/20/google-layoffs; Alex Irwin-Hunt, "Big Tech Layoffs Barely Touch Pandemic-Era Hiring," *fDi Intelligence* (Oct. 2023), https://www.fdiintelligence.com/content/data-trends/big-tech-layoffs-barely-touch-pandemicera-hiring-82050; Erin Griffith, "Big Tech Layoffs Barely Touch Pandemic-Era Hiring," *The New York Times* (Nov. 2022), https://www.nytimes.com/2022/11/10/technology/big-tech-layoffs.html.

21 Heski Bar-Isaac, Justin P. Johnson & Volker Nocke, *supra*.

22 Colleen Cunningham, Florian Ederer & Song Ma, *supra*.

Of course, stricter control of startup acquisitions, including acquihires and reverse acquihires, is likely to have an impact on innovation incentives of both startups and incumbents. In short, the prospect of acquiring a startup and of being acquired by an incumbent, changes what gets invented, who scales it, and how market structure evolves. Over the past several years a rich literature examining these dynamic innovation effects has developed. We summarize the main insights below.

The main concern of opponents of stricter control of startup acquisitions is that it would lower the incentives of startups to innovate. Stricter control would indeed make it more difficult for startups to pursue a profitable exit option, lowering the return on innovation and therefore lowering the incentive to innovate. As the opposite of this "entry-for-buyout" logic are the incentives of the incumbent, who, when the opportunity to acquire the entrant is absent responds by increasing own innovation incentives.[23] The overall result is ex ante ambiguous. However, when the firms can choose the portfolio of innovation projects, Letina, Schmutzler & Seibel find that the incumbents respond to a limit on acquisitions by increasing the duplication of entrant's efforts and not by pursuing new projects.[24] The overall effect of a prohibition on startup acquisitions is weak decline in the rate of innovation and in some environments the effect is zero or near zero. In those cases, competition gains can dominate the negative innovation effect. Recent empirical work provides some support for this, with estimates with enterprise software data showing that an outright prohibition of startup acquisitions would lead to lower entry.[25]

Acquisition prospects also steer the *type* of innovation. When founders expect to negotiate a sale, they shift toward safer, more incremental projects that fit the incumbent, rather than bolder ideas that threaten it.[26] Related work shows startups may adjust portfolios toward acquirer-aligned projects or away from them. Direction can improve or worsen, depending on the case.[27]

Diffusion of innovation matters as well. Acquisitions can be beneficial if startups lack the financial resources to develop and bring their innovation to the market. While this force speaks in favor of allowing acquisitions, Fumagalli, Motta & Tarantino show that the optimal policy prohibits high-price acquisitions.[28] However, if there is more than one potential acquirer, lax enforcement can lead to less diffusion. Dominant firms can outbid a laggard for a startup mainly to keep the laggard from closing the gap, even when the technology does not help the leader directly. That reduces diffusion and strengthens the leader.[29] Policies that curb exclusivity or require access when the buyer is highly dominant can restore diffusion with limited downside and may raise innovation incentives over time by keeping markets contestable.[30]

While acquisitions may spur innovation in the short run due to the entry-for-buyout effect, repeated deals can lead to the entrenchment of monopoly, locking in dominance and chilling future invention.[31] This suggests that the authorities should pay particular attention to firms which repeatedly engage in startup acquisitions.

Finally, an acquisition in a specific field may also affect startups which have not been affected, by creating what has been termed a "kill-zone."[32] Early empirical evidence supports the existence of this mechanism. Affeldt & Kesler study acquisitions of app developers by large tech companies.[33] They find that competing apps tend to innovate less following an acquisition and that developers of competing reallocate innovation efforts to other markets.

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23 Eric Rasmusen, "Entry for Buyout," *Journal of Industrial Economics* 36, no. 3 (1988): 281–299.

24 Igor Letina, Armin Schmutzler & Regina Seibel, "Killer Acquisitions and Beyond: Policy Effects on Innovation Strategies," *International Economic Review* 65, no. 2 (2024): 591–622.

25 Luise Eisfeld, *Entry and Acquisitions in Software Markets* (Swiss Finance Institute Research Paper No. 25-93, 2025).

26 Steven Callander & Niko Matouschek, "The Novelty of Innovation: Competition, Disruption, and Antitrust Policy," *Management Science* 68, no. 1 (2022): 37–51.

27 Esmée S. R. Dijk, José L. Moraga-González & Evgenia Motchenkova, "How Do Start-Up Acquisitions Affect the Direction of Innovation?" *Journal of Industrial Economics* 72, no. 1 (2024): 118–156.

28 Chiara Fumagalli, Massimo Motta & Emanuele Tarantino, *Shelving or Developing? Optimal Policy for Mergers with Potential Competitors* (BSE Working Paper No. 1197, 2023).

29 Kevin A. Bryan & Erik Hovenkamp, "Startup Acquisitions, Error Costs, and Antitrust Policy," *University of Chicago Law Review* 87, no. 2 (2020): 331–356.

30 *id.*

31 Vincenzo Denicolò & Michele Polo, *Acquisitions, Innovation and the Entrenchment of Monopoly* (CEPR Discussion Paper No. 16826, 2024).

32 Christopher Teh, Dyuti Banerjee & Chengsi Wang, *Acquisition-Induced Kill Zone* (Monash University, Department of Economics Discussion Paper No. 2022-24, 2022).

33 Pauline Affeldt & Reinhold Kesler, *Competitors' Reactions to Big Tech Acquisitions: Evidence from Mobile Apps* (DIW Berlin Discussion Paper No. 1987, 2021).

Taken together, these results suggest that while acquisitions can increase incentives for firms to innovate, they can also dull novelty, skew R&D toward "acquirable" work, and entrench leaders. This argues against blanket rules in either direction. It supports focused scrutiny, especially of dominant-firm takeovers with high prices or exclusivity that would meaningfully restrict rivals' access to key technologies.

IV. POLICY IMPLICATIONS

Throughout this article we have argued that both acquihires and reverse acquihires are specific types of startup acquisitions. As such, competition authorities should examine them under the same framework that they use for startup acquisitions. Moreover, if engaging in reverse acquihires is indeed an attempt by incumbents to evade scrutiny, and if they are less efficient than standard acquihires (due to more complex licensing arrangements or breaking up teams), then that would be another reason why reverse acquihires should face the same level of scrutiny as other startup acquisitions do. Removing any differential treatment would also remove the incentives of incumbents to pursue less efficient deals in an attempt evade regulatory scrutiny.

Evaluating acquihires and reverse acquihires under the framework of startup acquisitions implies evaluating whether these deals can eliminate potential competition to the acquirers. Moreover, regulators should take into account dynamic innovation effects of either prohibiting or allowing specific deals. Our reading of the literature is that while some startup acquisitions can lead to real competition harms, the dynamic effects can be ambiguous. This calls for a case-by-case evaluation of such acquisitions by the authorities. At the same time, many regulators do not have the resources to deal with a large number of startup acquisitions, which implies that screening tools are needed that could enable regulators to quickly separate unproblematic acquisitions. Screening by acquisition price as Fumagalli et al. are suggesting is a step in the right direction.[34]

We have identified two types of risk specific to acquihires and reverse acquihires. Blocking acquisitions if they significantly increase incumbent's monopsony power on the labor market fits well within the standard toolbox that competition authorities use. This theory of harm would apply when the incumbent and the startup represent the main potential employers for the specialized workforce in a specific market. We do not think this is currently the case in the AI market, as there are numerous potential employers and the competition for talent is fierce. However, competition authorities should remain vigilant in case acquihires with these characteristics appear in other markets (or the situation in the AI market changes).

The second type of risk we identified relates to talent hoarding. While talent hoarding represents an economic inefficiency, it is less clear whether this inefficiency falls under the mandate of competition authorities. However, there is no reason to constrain overall policy only to the legal framework within which competition authorities operate. We can, and should, consider tools outside of the standard toolbox. If a dramatically increasing share of acquisitions relative to IPOs is a problem, then broader tools that can shift incentives towards IPOs are called for. In the context of startup acquisitions, Letina et al. examine the effects of a tax on startup acquisitions and a simplification of the IPO procedures and find that they reduce the number of acquisitions, especially of the most promising startups, while maintaining the incentives of startups to innovate.[35]

Taken together, these approaches may help maintain a competitive landscape, support innovation while preserving an efficient allocation of talent.

34 Chiara Fumagalli, Massimo Motta & Emanuele Tarantino, *supra*.

35 Igor Letina, Armin Schmutzler & Regina Seibel, *supra*.

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