Monopolies Are Antithetical to Democracy

MATT STOLLER 3:19 AM



The proposed AT&T-Time Warner merger is a watershed moment for our political system. Will we continue to allow the further concentration of economic power at the top, or will this be the moment when democracy fights back?

ATT-Time Warner would be a giant in pay-TV, wireless service, broadband, news and entertainment — it could certainly shape the media to its advantage in a myriad different ways.

A very [real reason](https://www.wired.com/2016/10/att-buying-time-warner-future-google/) for the merger is fear of Facebook, Amazon and Google, the data conglomerates chewing through our media, advertising, book and retailing industries at a scale we haven’t seen since perhaps the dominance of 19th century industrial barons. AT&T is trying to join this small club.

*A de-concentration of economic power would lift up the middle class. Antitrust law was formerly used to reduce inequality, fight corruption and create a politically stable social contract all at once.*

Concentration like this is economically harmful and a threat to freedom. As the founder of the modern antimonopoly movement Barry Lynn has found, concentration [reduces job growth](http://washingtonmonthly.com/magazine/marchapril-2010/who-broke-americas-jobs-machine-3/), [crimps productivity](http://washingtonmonthly.com/magazine/julyaugust-2013/estates-of-mind/), [kills small business formation](http://washingtonmonthly.com/magazine/julyaugust-2012/the-slow-motion-collapse-of-american-entrepreneurship/) and [generates inequality](https://www.amazon.com/Cornered-Monopoly-Capitalism-Economics-Destruction/dp/0470928565).

Proponents of the Chicago school of law and economics — who have largely dominated policymaking for 40 years — argue that mergers are generally efficient and don’t cause price hikes. For them, big is good. But this is not the case. A recent retrospective study of mergers that were allowed by the Federal Trade Commission in concentrated markets found that mergers [do indeed lead to price hikes](https://mitpress.mit.edu/books/mergers-merger-control-and-remedies%26source%3Dgmail%26ust%3D1479170016883000%26usg%3DAFQjCNGql0FpaxHJAj0h_yc0lGXAbX_CcQ). The Fed also just released [a paper](https://www.bloomberg.com/view/articles/2016-10-24/mergers-raise-prices-not-efficiency) showing that, systematically, mergers raise prices, not productivity.

But most people don't need these studies to know they are being ripped off by their cell phone, broadband, and cable providers, and that medicine and air travel, for example, cost too much.

For most of the 20th century, forcing competition into markets was the American model for ensuring democracy in the commercial sphere. New Deal competition policy was a response to the concentration of power in the hands of financial tycoons, [which helped lead](http://www.usnews.com/news/history/articles/2009/09/29/pecora-hearings-a-model-for-financial-crisis-investigation) to the collapse of the banking system in the Great Depression.

Attacking monopolies was a method for reducing inequality, fighting corruption and creating a politically stable social contract all at once. In the 1970s, however, scholars [embraced a](https://www.theatlantic.com/politics/archive/2016/10/how-democrats-killed-their-populist-soul/504710/) different, pro-concentration philosophy, and 40 years later, the result is that power is once again concentrated in the hands of a small group, the supremely wealthy.

This already threatens our liberties. [Facebook](http://www.digitaltrends.com/social-media/facebook-advocacy-groups-letter/) and [Google](http://www.usnews.com/opinion/articles/2016-06-22/google-is-the-worlds-biggest-censor-and-its-power-must-be-regulated) engage in censorship; seven tech giants were caught [illegally suppressing employee wages](https://pando.com/2014/03/22/revealed-apple-and-googles-wage-fixing-cartel-involved-dozens-more-companies-over-one-million-employees/); and Comcast, which bought NBC seven years ago and never adhered to the merger conditions to which it agreed, [sometimes bans political speech](http://thehill.com/business-a-lobbying/business-a-lobbying/300401-comcast-in-middle-of-oregon-fight-over-taxes-and) over its airwaves. AT&T has incentives to do the same thing: It already [priveleges its own DirecTV content](https://www.wired.com/2016/09/att-squeezes-net-neutrality-free-ride-directv/) across its own distribution network and could pick and choose who what gets heard in America and what doesn't.

But the U.S. has a model for de-concentrating power in order to lift up the middle class.

In 1938, Roosevelt responded to a recession at home and the rise of fascism abroad by launching [a broad attack on monopolies](http://www.presidency.ucsb.edu/ws/?pid=15637). The understanding that concentration would bring oligarchy and political instability was held on both sides of the aisle. Indeed, a year later, the Federal Trade Commission noted that “Monopoly constitutes the death of capitalism and the genesis of authoritarian government.” The result of the following decades-long attack on such concentration (by both Democrats and [Republicans](http://washingtonmonthly.com/magazine/novemberdecember-2016/how-to-make-conservatism-great-again/)) was a strong middle class.

But there is a more recent example of success the U.S. could look to: Until 2011 Israel had a similar concentration problem. Social protest and aggressive journalism pushed[a “concentration bill”](http://dealbook.nytimes.com/2014/01/07/overhaul-of-israels-economy-offers-lessons-for-united-states/?_r=0) through the Knesset, and the results rippled through society. More competition in the mobile market led to a [90 percent](http://www.bloomberg.com/news/articles/2015-03-17/israel-s-moshe-kahlon-emerges-from-vote-as-possible-kingmaker) price drop.

More interesting still: The concentration bill was approved by all parties in Israel, from the extreme right to the extreme left — a rare feat in a country with fractious politics. Starting with AT&T-Time Warner, perhaps stronger anti-monopoly policy is something all Americans can agree on.

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Concentration in an Industry Does Not Mean It Lacks Competition

JOSHUA WRIGHT 3:19 AM



“Big is bad” is perhaps the only thing this year's presidential candidates agreed upon. Too many big mergers, too little enforcement, goes the narrative.

Left-leaning antitrust commentators have called for an antitrust “revolution.” Even the acting head of one antitrust agency, apparently feeling the strengths of the political winds at her back, declared antitrust “too important to be left to the experts.” The Council of Economic Advisors — a historically reputable outfit no matter the administration — recently released [a report](https://www.whitehouse.gov/sites/default/files/page/files/20160414_cea_competition_issue_brief.pdf) blaming increasing market concentration for higher prices and reduced economic growth.

This argument suffers from two fatal flaws. First, it ignores the economically simple — yet often forgotten — truism that a high level of concentration in an industry simply does not mean the industry lacks competition. Concentration and competition are distinct concepts.

*Antimerger mania presumes they are never a good deal for consumers. But antitrust policy is an exceptionally poor tool to protect the working man.*

Sometimes a concentrated industry is noncompetitive. Consider hospitals, where the Federal Trade Commission has successfully challenged proposed mergers with convincing economic evidence that greater concentration would lead to increases in price and reduced quality of service.

Conversely, an industry with two or three firms can be more competitive than one with 50, such as supermarkets or online platforms like Uber where economies of scale can enhance competition between fewer but healthier players. The last 40-plus years of economic research is clear: Simply counting the number of firms in an industry [tells you very little about competition](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2817962).

The new antimerger fervor is based upon the presumption that they are never a good deal for consumers because more consolidation always leads to higher prices, and never leads to cost savings or product improvements that benefit consumers. Both are demonstrably false. Antitrust agencies [close the majority](https://www.ftc.gov/system/files/documents/reports/federal-trade-commission-bureau-competition-department-justice-antitrust-division-hart-scott-rodino/160801hsrreport.pdf) of their merger investigations precisely because the proposed deal offers no threat to competition or to the [benefit of consumers](https://www.ftc.gov/sites/default/files/documents/reports/merger-efficiencies-federal-trade-commission-1997%E2%80%932007/0902mergerefficiencies.pdf).

What's more, the evidence that supports the conclusion that markets are actually becoming more concentrated is exceptionally weak. The Council of Economic Advisors concluded that we have a monopoly problem because, in a handful of industries, the combined market shares of the top 50 firms have seen a modest increase over the past few decades.

But a closer look shows that the council found that the combined market shares of the top 50 firms is below 50 percent in nearly all industry sectors. The average market share for a firm in these industries is less than 1 percent. That is certainly not evidence of a monopoly problem.

Economists have long rejected the “antitrust by the numbers” approach. Indeed, the quiet consensus among antitrust economists in academia and within the two antitrust agencies is that mergers between competitors do not often lead to market power but do often generate significant benefits for consumers — lower prices and higher quality. Sometimes mergers harm consumers, but those instances are relatively rare.

Because the economic case for a drastic change in merger policy is so weak, the new critics argue more antitrust enforcement is good for political reasons. Big companies have more political power, they say, so more antitrust can reduce this power disparity. Big companies can pay lower wages, so we should allow fewer big firms to merge to protect the working man. And big firms make more money, so using antitrust to prevent firms from becoming big will reduce income inequality too. Whatever the merits of these various policy goals, antitrust is an exceptionally poor tool to use to achieve them. Instead of allowing consumers to decide companies’ fates, courts and regulators decided them based on squishy assessments of impossible things to measure, like accumulated political power. The result was that antitrust became a tool to prevent firms from engaging in behavior that benefited consumers in the marketplace.

The antitrust agencies are full of talented economists and lawyers who use the most up-to-date and sophisticated techniques to identify mergers worthy of challenge on behalf of consumers. Economic analysis has more often than not trumped ideological politics in antitrust policy for the past 35 years. Let’s keep it that way.

1. Describe each side of the argument. What are the arguments (contentions) presented here on each side?
2. What are two things that you found the most interesting in this discussion? Why?
3. Which side do you think argued more effectively? Why? (consider not necessarily just what is said, but how the argument is constructed)
4. What do you think? Which side of the argument do you more ascribe to? Why?
5. Write your own level three discussion question and answer it.