Center for American Progress

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Reviving Antitrust

Why Our Economy Needs a Progressive Competition Policy

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Introduction and summary

> *"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."*[1] —Adam Smith, *The Wealth of Nations*

Income inequality is rising, middle-class incomes are stagnant, and much of the current economic policy debate is centered on finding ways to counter these trends. A renewed focus on antitrust enforcement could make a significant contribution toward accomplishing this goal.

When firms with dominant market power are able to elevate the prices they charge and earn supra-normal returns—which are economic rents—they simultaneously lower the real incomes of those who buy from them. In other words: The seller benefits when market power elevates the price of hospital care or raises the price of an airline ticket, but the buyer has less income for other needs. Moreover, the tendency of monopolies to restrict output combined with reduced competitive pressure to invest can translate into reduced employment.

Market power is once again a headline issue. As journalist David Dayen recently noted in *The American Prospect*:

> *Executives and Wall Street traders make astronomical incomes, while wages are squeezed. Post-merger price increases, from health care to cable TV service to airline tickets, translate into a decline in real wages. Big mergers also encourage reduction in actual wages, when consolidations produce layoffs and limit avenues for employment.*[2]

As this report highlights, there is systematic evidence—ranging from the disconnect of corporate profits and corporate investment to evidence of persistent supra-normal profitability—that points to an increase in rent extraction in the U.S. economy. And while large rent extraction is a primary outcome of unchallenged market power, there are additional and equally undesirable results. For example, the entry of new firms in the market can be blocked; innovation can be stifled; product quality can be degraded; the prices paid to workers and suppliers can be reduced; and influence with government officials can be increased.

Fortunately, there are policy tools—created by statutes such as the Sherman Antitrust Act, the Clayton Act, and the Federal Trade Commission Act—that can be used by enforcement agencies to reverse these developments. For instance, enforcement agencies and courts can block mergers that are likely to result in significant price increases and challenge conduct that would increase the clout of a firm that already has considerable market power.

However, these enforcement tools have not been deployed vigorously enough over the past few decades. Concentration-increasing mergers, many of which have gone unchallenged by antitrust authorities, have too often been followed by increased prices. Moreover, there have been few challenges to unilateral actions to expand or preserve market power by those who have it.

This report outlines a series of reforms designed to revitalize the use of antitrust authority. Doing so would be a step in the direction of restoring competition and opportunity in important parts of the economy.

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