

Does Antitrust Policy Improve Consumer Welfare? Assessing the Evidence*

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Outline:

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The Scope of Antitrust Activity

Sherman Antitrust Act of 1890

Prohibits contracts, combinations and conspiracies in restraint of trade
Prohibits actions to monopolize or attempts to monopolize markets.

Clayton Antitrust Act of 1914

Prohibits mergers between firms that threaten to reduce competition substantially.
Prohibits anti competitive practices like tying arrangements
Prohibits competing firms from having overlapping boards of directors.

Federal Trade Commission Act 1914

Prohibits unfair methods of competition

Hart-Scott- Rodino Antitrust Improvement Act of 1976

Requires approval for any merger of firms valued at more than \$100 and \$50 million.

U.S. antitrust enforcement:

The Department of Justice (DOJ).

The Federal Trade Commission (FTC).

Should the United States pursue a vigorous antitrust policy?

*Table 1***DOJ Antitrust Division and FTC Investigations and Budgets: 1981, 1991, 2000***(in millions of year 2000 inflation-adjusted dollars)*

		<i>Investigations</i>		
<i>Agency</i>	<i>Conduct</i>	<i>1981</i>	<i>1991</i>	<i>2000</i>
Antitrust Division	Monopolies	8	5	8
	Mergers	66	92	177
	Price Fixing	145	77	82
FTC	Mergers	104	136	189
TOTAL		323	310	456
		<i>Budgets</i>		
<i>Agency</i>	<i>Conduct</i>	<i>1981</i>	<i>1991</i>	<i>2000</i>
Antitrust Division ^a	Monopolies and Mergers	\$31.1	\$23.3	\$57.2
	Price Fixing	\$22.2	\$24.6	\$30.7
FTC ^b	Mergers	\$54.4	\$45.5	\$59.0
TOTAL		\$107.7	\$93.4	\$146.9

Monopolization

- Monopolization:
 - A firm has power over price and output in a market
 - This power derives from business decisions whose principal intent and effect was to exclude competition.
- The Department of Justice typically investigates fewer than 10 potential monopolization violations a year.

Standard Oil



It negotiated contracts with railroads denying independent oil companies access to its pipelines and transportation facilities.

It had predatory pricing to drive rivals from the market.

In 1911, the supreme court ruled Standard oil violate the Sherman act. It was separated into 38 separate and independent companies.

Real Petroleum Product Prices, 1899–1925

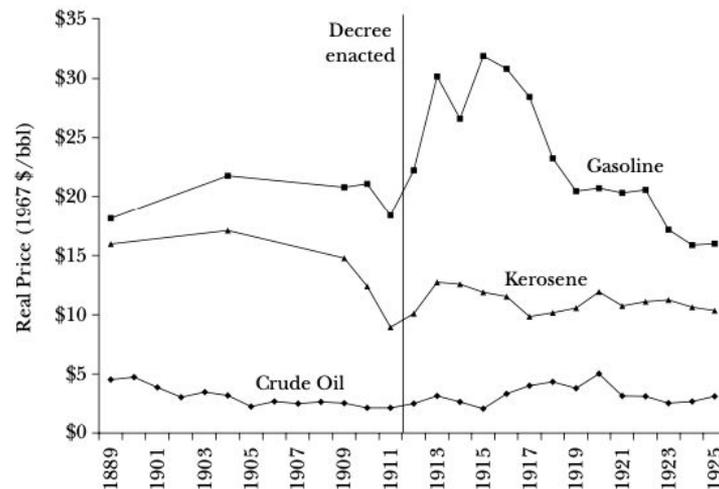


Figure 1: Real Petroleum Product Prices, 1899–1925

American Tobacco



AMERICAN
TOBACCO

- In 1910, It had more than 75% of U.S. sales of each product, except regular cigars.
- It acquired other Tobacco Companies
- It had aggressive pricing behavior, pricing below manufacturing costs (Tennant, 1950)

- In 1911, it was divided cigarette production into three separate parts
- The three-firm oligopoly was to unleash a battle for market share through advertising, not price (Tennant, 1950)
- The breakup did not affect the price paid to farmers for tobacco.

Alcoa



Alcoa

- The largest source of aluminum imports into the United States.
- In 1912, the DOJ charged Alcoa with restraining trade and monopolizing.
- Alcoa signed a consent decree that required it to:
 - Give up its interest in its Canadian subsidiary.
 - Terminate a contract with two chemical firms,
 - Not to participate in any collusive agreements or mergers
 - Not to discriminate against any competing fabricator.

Alcoa



Alcoa

- In 1930s, Alcoa's primary production and imports still constituted 90 percent of the supply of aluminum in the United States.
- In 1937, the DOJ filed a Sherman Act civil suit again.
- The final decree was postponed until after World War II
- The government had constructed plants for alumina reduction, aluminum smelting and fabrication and created two viable competitors in the process
- Crandall (2001) provides empirical evidence that the decree had no effect on real aluminum prices.

Paramount



- During the 1930s, some distributors owned theatre chains.
- In 1946, Paramount was charged with violating the Sherman Act, by:
 - Price fixing
 - Restricting output to competing theatres.
- By the early 1950s, the five major distributors had completely divested their theatre chains.
- Afterwards the Consumer Price Index for theatres rose more than the overall CPI
- Seven of the original eight defendants accounted for nearly three-fourths of all U.S. theatrical rentals (Crandall, 1975)

United Shoe Machinery (USM)

- In 1949, it had 91% major machines market share, and 64% in minor machines.
- USM 10 years contract violation banned switching to a competitor's machine
- In 1954, U.S. Supreme Court monopolization ruling:
 - prohibiting USM from designing its lease and sales terms.
 - the duration of all new leases had to be reduced to 5 years or less with an option to return machines after one year
- USM's market share fell from 85% in 1953 to 62% in 1963 (Parrish, 1973).
- The ratio of the value of shoe machinery shipments to the value of shoe shipments was unchanged.
- In 1969, USM was forced to divest itself.



- In 1974, the DOJ brought a monopolization case against AT&T
- In 1982, AT&T was forced to divest its local operating companies.
- AT&T retained its long distance operations and a telephone equipment company.
- Following the breakup, long distance telephone competition dramatically increased and rates fell.
- However the price decreases can be attributed to the requiring companies to modify their switching facilities to provide equal access to all long distance carriers.

Collusion

- The Department of Justice investigates about 100 allegations of price fixing a year and often proceeds with indictments.
- Newmark (1988) found that an antitrust indictment of bakers in Seattle had no effect on the price of bread.
- Morrison and Winston (1996) concluded that prohibiting airlines from announcing the ending dates of their fare promotions had no effect on fares
- Sproul (1993) found in price fixing cases prices *rose* an average of 7% four years after an indictment.

Mergers

- At least half of federal antitrust resources goes to processing mergers.
- Firm valued over \$100 million to file a premerger notification.
- Mergers effects are harder to measure
- Looking at stock market valuation Eckbo's (1992) conclusion from that the mergers that were challenged were not anticompetitive.
- Looking at failed challenges:
 - Weyerhaeuser's acquisition of Menasha, which led to a decline in corrugated box prices.
 - TWA and Ozark merger led to a 15 percent decline in fares.
 - Northwest and Republic merger led to 2% increase in price.

Mergers

- Price-cost margins analysis
- Court-Based Outcomes :
 - Mergers successfully blocked
 - Mergers unsuccessfully challenged
 - Consent decrees.
- Second request for information
- Industry Characteristics :
 - Import-sales ratio
 - The growth of the number of firms

Table 2
Price-Cost Margin Parameter Estimates
(robust standard errors in parentheses)

<i>Variable</i>	<i>Coefficient</i>
<i>Court-Based Outcomes</i>	
Mergers successfully blocked by FTC or DOJ (2-year lag)	-0.040 (0.032)
Mergers unsuccessfully challenged by FTC or DOJ (2-year lag)	-0.038 ^a (0.011)
Consent decrees (2-year lag)	0.017 ^a (0.004)
<i>Other Outcomes</i>	
Second request for information made by FTC or DOJ (2-year lag)	-0.001 (0.002)
<i>Industry Characteristics</i>	
Import-sales ratio	-0.071 ^a (0.020)
Log of the growth of the number of firms (5-year lag)	-0.721 ^a (0.188)
Capital-sales ratio	-0.105 ^a (0.008)
Constant	0.518 ^a (0.018)
R ²	0.45
Number of observations	260

^a Statistically significant at the 1 percent level.

Detering Anticompetitive Behavior

- There is lack of direct evidence that antitrust actions on monopolization, collusion and mergers have promoted competition and benefited consumers,
- The authors have not found any evidence that antitrust enforcement has deterred consumers harming actions.
- comparing concentration in specific industries in England with the US Stigler concluded that the Sherman Act has had a very modest effect in reducing U.S. concentration. Stigler (1966)
- Eckbo (1992) compares horizontal merger in Canada and the United States. Eckbo rejected the hypothesis that the U.S. antitrust laws are deterring anticompetitive mergers.
- Antitrust laws have a small effect compared with the ability of competitive markets to deter anti competitive monopolies, collusion and mergers.

Conclusion

- Antitrust doctrines have changed and continue to change.
- Empirical assessments should be at the heart of these changes.
- The DOJ and the FTC could help advance our knowledge of the effects of antitrust policy by making more data generated by cases available to researchers.

Thank you

Let's discuss!