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Carl Shapiro Discusses Antitrust in a Time of Populism

By TAP Staff Blogger

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In a new article, UC Berkeley economics professor Carl Shapiro discusses how to move antitrust enforcement forward in a constructive manner during a time of widespread and growing concern over the political and economic power of large corporations in the United States. "Antitrust in a Time of Populism" reviews the evidence of growing concentration in the U.S. economy, discusses whether that constitutes a decline in competition, and outlines the role for antitrust going forward.

"Antitrust in a Time of Populism" emphasizes three themes.

- First, a body of economic evidence supports more vigorous merger enforcement in the United States.
- Second, close antitrust scrutiny is appropriate for today's largest and most powerful firms, including those in the tech sector. Proper antitrust enforcement regarding unilateral conduct by dominant firms should continue to focus on identifying specific conduct that harms customers or disrupts the competitive process, especially conduct that excludes pesky, disruptive rivals.
- Third, while antitrust enforcement has a vital role to play in keeping markets competitive, antitrust law and antitrust institutions are ill suited to directly address concerns associated with the political power of large corporations or other public policy goals such as income inequality or job creation.

Professor Shapiro is an antitrust expert. He has served at the Department of Justice during the Obama and Clinton administrations; and, he also served on the Council of Economic Advisors under President Obama.

Professor Shapiro recently discussed "Antitrust in a Time of Populism" and his extensive insights into antitrust in the U.S. with Walter Frick for the *Harvard Business Review*. Below are excerpts from "As More People Worry About Monopolies, an Economist Explains What Antitrust Can and Can't Do".

Does Increasing Industry Concentration Suggest a Decline in Competition?

> [But] The bigger question is what do we make of the increases in concentration that we observe. There

are two very different interpretations. One interpretation is that when a market gets more concentrated, that means it's less competitive, so we have a problem. That is not a new view; it was a fairly popular view in the '50s and '60s. And many people seem to be taking that view without even realizing that there is a perfectly coherent alternative view. The alternative view attributes increases in concentration to growing economies of scale, which means that the larger companies tend to be more efficient than the smaller ones. In that situation, over time the larger companies will tend to edge out their smaller rivals. That is what happens naturally when firms compete and there are substantial scale economies. When you have scale economies and some firms are more efficient than others those firms are going to get bigger and take over and you could very well see increasing concentration. Plus, it's well understood by industrial organization economists that many markets are naturally rather concentrated. So that's the alternative explanation: at least some of the increasing concentration we are seeing reflects the competitive process at work.

What Principles Should Antitrust Follow?

First, that the goal of antitrust is to make sure that consumers benefit from the forces of competition. What that means is several things. First, we have to make sure that mergers don't eliminate competition. Second, we cannot let firms form cartels to collude rather than compete. Third, we cannot let big, powerful firms stiff-arm or exclude competitors that would threaten them. The common theme is that antitrust prevents firms from doing things, either alone or in groups, that disrupts the competitive process and harms consumers. That is the core principle, that's what we're trying to do with antitrust.

Now let's set that against two things we're not trying to do. First, antitrust does not break up or regulate a firm simply because it has grown to be large or powerful. … Sometimes one firm is very successful and obtains a dominant position in the market. So long as that firm does not exclude its competitors or engage in "monopolization," antitrust is going to accept that outcome as part of the competitive process. … Second, antitrust does not protect small companies from competition by larger ones. Antitrust is about unleashing the forces of competition, not throttling them. For over 100 years there have been political tendencies to protect small companies. If we conclude that is an important social goal, it should be achieved through other means such as the tax system or via regulations, not through antitrust.

Is It Advisable to Try to Regulate the Autonomy of Major Tech Companies?

[But] When people express general concerns about the power of the large tech firms and look to regulation to check that power, I'm more skeptical. Take Facebook, for example. Clearly, Facebook is large and powerful based on their huge social network. But what problem would regulation solve, and what specific regulation are we talking about? If somebody wants to come up with a proposal for a broad-based regulation that would apply to Facebook, I'm listening. But I don't think it's easy to control the economic power of the large tech firms by regulation. The best way to do that is to make sure they are subject to the forces of competition.

Read Professor Shapiro's full article: "Antitrust in a Time of Populism".
Read the full *HBR* interview: "As More People Worry About Monopolies, an Economist Explains What Antitrust Can and Can't Do".

Carl Shapiro is the Transamerica Professor of Business Strategy at the Haas School of Business, and Professor of Economics in the Economics Department, at the University of California at Berkeley. His current research interests include antitrust economics, intellectual property and licensing, patent policy, product standards and compatibility, and the economics of networks and interconnection.