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WHATEVER *DID* HAPPEN TO THE ANTITRUST MOVEMENT?

*Herbert Hovenkamp**

INTRODUCTION: MOVEMENT ANTITRUST

Antitrust in the United States today is caught between its pursuit of technical rules designed to define and implement defensible economic goals, and increasingly political calls for a new antitrust “movement.” The goals of this movement have been variously defined as combatting industrial concentration, limiting the economic or political power of large firms, correcting the maldistribution of wealth, controlling high profits, increasing wages, or protecting small business. None of those goals is new.¹ They have appeared and reappeared in the history of United States antitrust policy. Among the articulated goals of movement antitrust, low consumer prices often go unmentioned.²

In the 1960s, the policy historian Richard Hofstadter lamented the passing of the antitrust “movement” as one of the “faded passions of American

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1 For example, the history of anticoncentration rhetoric is voluminous and more than a century old. See William E. Kovacic, *Failed Expectations: The Troubled Past and Uncertain Future of the Sherman Act as a Tool for Deconcentration*, 74 IOWA L. REV. 1105, 1105 (1989); Harry First, *Woodstock Antitrust* 3–4 (N.Y. Univ. Ctr. for Law, Econ. & Org., Law & Econ. Research Paper Series, Working Paper No. 18-24, 2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3180878. On the early history, see generally MARTIN J. SKLAR, *THE CORPORATE RECONSTRUCTION OF AMERICAN CAPITALISM, 1890–1916* (1988), and HANS B. THORELLI, *THE FEDERAL ANTITRUST POLICY* 54–96, 235–308 (1955). Louis Brandeis spoke forcefully about these issues. See generally *THE CURSE OF BIGNESS: MISCELLANEOUS PAPERS OF LOUIS D. BRANDEIS* (Osmond K. Fraenkel ed., 1934) (including a collection of his papers dating back to the 1912 presidential election). On the extent to which the current neo-Brandeis movement restates earlier movements, see Herbert Hovenkamp, *Is Antitrust’s Consumer Welfare Principle Imperiled?*, 44 J. CORP. L. (forthcoming 2018) [hereinafter Hovenkamp, *Antitrust’s Consumer Welfare Principle*], https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3197329.

2 See Hovenkamp, *Antitrust’s Consumer Welfare Principle*, *supra* note 1, (manuscript at 2).

reform.”³ In its early history, he observed, antitrust had a powerful movement quality but very few accomplishments in the courts. Later, it ceased to be a movement just as it was attaining litigation success. Hofstadter’s essay appeared in a book entitled *The Paranoid Style in American Politics*.⁴ He later explained that title as invoking “the sense of heated exaggeration, suspiciousness, and conspiratorial fantasy” that characterized movement politics in the United States.⁵ Antitrust was no exception.

At about the same time, Robert H. Bork and Ward Bowman published another well-known essay addressing many of the same issues, although from a different perspective. In *The Crisis in Antitrust*⁶ they complained that antitrust was forever “vacillat[ing] between the policy of preserving competition and the policy of preserving competitors from their more energetic and efficient rivals.”⁷ The result, they argued, was a haphazard mix of intelligent rules governing practices such as naked price fixing, together with senseless overly aggressive rules against imagined exclusionary practices,⁸ and even condemning mergers simply because they produced cost savings.⁹

Bork borrowed heavily from this article when he wrote *The Antitrust Paradox*, which was published a little over a decade later.¹⁰ There he noted antitrust’s very considerable rhetorical popularity,¹¹ but along with it a lack of fundamental understanding of antitrust law’s economic purpose and effects, even among its practitioners.¹² At the same time, he observed that “[t]here has always existed in this country a populist hostility to big business, a hostile-

3 Richard Hofstadter, *What Happened to the Antitrust Movement?*, in *THE PARANOID STYLE IN AMERICAN POLITICS AND OTHER ESSAYS* 188 (1st ed. 1965). The essay is reprinted in *THE MAKING OF COMPETITION POLICY: LEGAL AND ECONOMIC SOURCES* (Daniel A. Crane & Herbert Hovenkamp eds., 2013). Hofstadter’s essay originally appeared in *THE BUSINESS ESTABLISHMENT* 113 (Earl F. Cheit ed., 1964).

4 Hofstadter, *supra* note 3.

5 See Richard Hofstadter, *The Paranoid Style in American Politics*, *HARPER’S MAG.*, Nov. 1964, at 77, 77, <https://archive.harpers.org/1964/11/pdf/HarpersMagazine-1964-11-0014706.pdf?AWSAccessKeyId=AKIAJUM7PFZHQ4PMJ4LA&Expires=1540561655&Signature=Tfsnu99SIXmG0YaVHTQIc3iks54%3D>.

6 Robert H. Bork & Ward S. Bowman, Jr., *The Crisis in Antitrust*, 65 *COLUM. L. REV.* 363 (1965) [hereinafter Bork & Bowman, *Crisis in Antitrust*]. The article was based on an essay that initially appeared in *Fortune* magazine. Robert H. Bork & Ward S. Bowman Jr., *The Crisis in Antitrust*, *FORTUNE*, Dec. 1963, at 138.

7 Bork & Bowman, *Crisis in Antitrust*, *supra* note 6, at 363–64.

8 *Id.* at 366.

9 *Id.* at 373.

10 ROBERT H. BORK, *THE ANTITRUST PARADOX* (1978) [hereinafter BORK, *ANTITRUST PARADOX*]. Bork even borrowed some phrases from the earlier article. For example, Bork and Bowman referred to “the crash of antitrust merger” policy in the 1960s, referring mainly to *Brown Shoe Co. v. United States*. Bork & Bowman, *Crisis in Antitrust*, *supra* note 6, at 370. This inspired the title of chapter nine of BORK, *ANTITRUST PARADOX*, *supra* at 198–216.

11 BORK, *ANTITRUST PARADOX*, *supra* note 10, at 3.

12 *Id.*

ity that is currently reinforced by the suspicion that major corporations are somehow to blame for hardships that have their origin elsewhere.”¹³

Hofstadter’s, Bowman’s, and Bork’s observations capture one of anti-trust law’s most enduring disconnects. On the one side is its “movement” quality, reflected by politicians and popular media as an appeal for a stronger and broader set of antitrust rules that are better able to serve the American economy’s various constituencies. Often movement participants lack a serious understanding of economics and have wildly unrealistic expectations about what competition policy can accomplish, as well as inconsistent and even incoherent goals. Often accompanying this is considerable distrust and paranoia, much of it leveled at big business.¹⁴

On the other side are antitrust’s much duller technical rules, driven by concerns for due process, economic efficiency, administrability, and testability. In contrast to the antitrust movement, Hofstadter observed, “the antitrust enterprise, as an institutional reality, now runs its quiet course without much public attention, and we lose sight of it.”¹⁵ He lamented that “[i]n the very years when it lost compelling public interest the antitrust enterprise became a force of real consequence in influencing the behavior of business.”¹⁶

While Hofstadter, Bork, and Bowman might all seem like so much ancient history, their characterization of antitrust’s dilemma is particularly relevant today. If anything, it more accurately describes the situation in the twenty-first century than it did when they were writing. Over the last fifty years antitrust has become much more technical, particularly in areas such as merger enforcement and exclusionary behavior, but also in more collateral areas such as assessing causation and measuring damages. As its technical competence has increased, its “movement” quality has faded into the background or become political noise. Simultaneously, technical antitrust has become less interesting to politicians, who cannot win elections by talking about the Herfindahl-Hirschman Index or average variable cost.

As a movement, antitrust often succeeds at capturing political attention and engaging at least some voters, but it fails at making effective or even coherent policy. The result is goals that are unmeasurable and fundamentally inconsistent, although with their contradictions rarely exposed. Among the most problematic contradictions is the one between small business protection and consumer welfare. In a nutshell, consumers benefit from low prices, high output, and high quality and variety of products and services. But when a firm or a technology is able to offer these things they invariably injure rivals, typically those who are smaller or heavily invested in older technologies. Although movement antitrust rhetoric is often opaque about specifics, its general effect is invariably to encourage higher prices or reduced output or innovation, mainly for the protection of small business or those

13 *Id.* at 5.

14 See Hovenkamp, *Antitrust’s Consumer Welfare Principle*, *supra* note 1.

15 Hofstadter, *supra* note 3, at 189.

16 *Id.* at 190.

whose technology or other investments have become obsolete. Indeed, that has been a predominant feature of movement antitrust ever since the Sherman Act was passed, and it remains a prominent feature of movement antitrust today. Indeed, some spokespersons for movement antitrust write, as Louis Brandeis did, as if low prices are the evil that antitrust law should be combatting.¹⁷

Nevertheless, mantras such as “industrial concentration” or “big business” have great political force. These terms provide almost nothing in the way of administrable rules while yet evoking an image of something big, bad, and powerful that government must bring under control. For example, here is the plank of the 2016 Democratic Party’s platform on antitrust:

Large corporations have concentrated their control over markets to a greater degree than Americans have seen in decades—further evidence that the deck is stacked for those at the top. Democrats will take steps to stop corporate concentration in any industry where it is unfairly limiting competition. We will make competition policy and antitrust stronger and more responsive to our economy today, enhance the antitrust enforcement arms of the Department of Justice (DOJ) and the Federal Trade Commission (FTC), and encourage other agencies to police anti-competitive practices in their areas of jurisdiction.

We support the historic purpose of the antitrust laws to protect competition and prevent excessively consolidated economic and political power, which can be corrosive to a healthy democracy. We support reinvigorating DOJ and FTC enforcement of antitrust laws to prevent abusive behavior by dominant companies, and protecting the public interest against abusive, discriminatory, and unfair methods of commerce. We support President Obama’s recent Executive Order, directing all agencies to identify specific actions they can take in their areas of jurisdiction to detect anticompetitive practices—such as tying arrangements, price fixing, and exclusionary conduct—and to refer practices that appear to violate federal antitrust law to the DOJ and FTC.¹⁸

The antitrust plank never references low consumer prices, or anything having to do with product quality. That is not because Democrats are not interested in low consumer prices.¹⁹ Rather, they apparently believe that antitrust has little to do with it. The references to prices occur in other sections of the platform, devoted to such subjects as health and safety and the high price of pharmaceutical drugs. Those sections make no reference to

17 See *infra* notes 53–56 and accompanying text.

18 DEMOCRATIC PLATFORM COMM., 2016 DEMOCRATIC PARTY PLATFORM 11 (2016), https://democrats.org/wp-content/uploads/2018/10/2016_DNC_Platform.pdf [hereinafter DEMOCRATIC PLATFORM].

19 Cf. Senator Elizabeth Warren, Keynote Remarks at New America’s Open Markets Program Event: Reigniting Competition in the American Economy (June 29, 2016), https://www.warren.senate.gov/files/documents/2016-6-29_Warren_Antitrust_Speech.pdf (discussing competition, rather than low market prices, while speaking about antitrust). Senator Warren, however, expresses a strong concern about consumer prices and product and service quality. *Id.* at 2.

antitrust law.²⁰ The only references to “consumers” occur in planks pertaining to unionization, affordable housing, Wall Street, banks and Dodd-Frank, and clean energy.²¹ So according to the platform, while legal policy generally is concerned with high consumer prices, antitrust policy apparently is not. By contrast, the 2016 Republican platform never references antitrust, although it does contain a plank promoting a “competitive America,” but focused entirely on lowering tax rates.²²

The antitrust plank in the 2016 Democrat platform is actually one of the most detailed to appear in any platform by a major political party.²³ The catchphrases that it uses, however—“corporate concentration,” “unfairly limiting competition,” or “abusive behavior by dominant companies”—can mean practically anything depending on assumptions. The platform is peppered with references to “fair” or “fairness,” including the antitrust plank, but with no reference point indicating how fairness should be assessed. Is it “fair” that consumers be asked to pay high prices in order to accommodate the shortcomings of some businesses; or conversely, is it “fair” that small businesses suffer simply because they are not able to compete with larger firms on price or quality; or is it “fair” that firms heavily invested in old brick-and-mortar distribution lose out to more technologically entrepreneurial firms? “Fairness” as an antitrust concern means nothing without a reference point or set of measurement tools.

As for specific practices, the antitrust plank in the Democrat platform singles out “tying arrangements, price fixing, and exclusionary conduct,” saying nothing about mergers, other vertical restraints, or anticompetitive patent practices. In fact, the platform never mentions patents, although it makes frequent references to innovation, largely in the context of proposed government intervention to stimulate production²⁴ or to finance research and development and educate people for more technically demanding jobs.²⁵ Of the three anticompetitive practices that it singles out, “price fixing” is completely uncontroversial and has always been a central focus of nearly every articulation of antitrust policy, left, center, and right—including in Bork’s *The Antitrust Paradox*.²⁶ The term “exclusionary conduct” is so vague that it is meaningless. Both socially harmful and socially beneficial

20 DEMOCRATIC PLATFORM, *supra* note 18, at 30, 32.

21 *Id.* at 4, 5, 10, 24–25.

22 REPUBLICAN PLATFORM 2016, at 2 (2016), [https://prod-cdn-static.gop.com/media/documents/DRAFT_12_FINAL\[1\]-ben_1468872234.pdf](https://prod-cdn-static.gop.com/media/documents/DRAFT_12_FINAL[1]-ben_1468872234.pdf).

23 The full text of major party platforms dating back to 1840 can be found at *National Political Party Platforms: Parties Receiving Electoral Votes 1840–2016*, AM. PRESIDENCY PROJECT, <http://www.presidency.ucsb.edu/platforms.php> (last visited Oct. 26, 2018). For a history of antitrust planks in major party platforms, see *The Monopoly Issue in Party Politics*, CQ RESEARCHER (July 7, 1936), <http://library.cqpress.com/cqresearcher/document.php?id=CQresite1936070700>.

24 *E.g.*, DEMOCRATIC PLATFORM, *supra* note 18, at 7 (stimulating a “manufacturing renaissance”); *id.* at 12 (innovation and trade agreements).

25 *See id.* at 31–32 (innovation and universal healthcare; reducing drug costs).

26 BORK, *ANTITRUST PARADOX*, *supra* note 10, at 66–67, 292–95.

conduct can be “exclusionary.” The inclusion of “tying arrangements” is mystifying. Tying is ubiquitous in modern economies and is an essential characteristic of networks and technology.²⁷ Further, the vast majority of it is procompetitive because it increases output without excluding anyone. Finally, the number of antitrust tying cases is small in comparison with merger cases, which make up a large portion of antitrust enforcement activity. A major party platform that identifies “tying arrangements” but not “mergers” as a fundamental concern requires an explanation. Most importantly, it seems to miss the whole point of competitive markets, which is to produce a high output of quality, competitively priced goods.

At least in part, the Democratic Party platform reflects the reappearance of movement antitrust. While it is hardly the only expression, and certainly not the most extreme, it represents a troublesome development—namely, the idea that America needs higher prices in order to give smaller firms a fair chance. The platform also gives a reader the strong impression that its slogans were selected in order to achieve maximum political traction with the *illiterati*, and perhaps that is all that can be expected of a political platform. In the process, however, it does antitrust policy a great disservice by making its legitimate targets almost impossible to define and not providing ammunition for attacking them when they are defined. Its supporters generally disparage the use of economics, sometimes suggesting that antitrust policy should be governed by political theory instead.²⁸ Exactly how political theory gets one to specific antitrust rules is not completely clear, but it involves excluding the opinions of antitrust experts concerning the public’s interest.²⁹

Movement antitrust argues variously for abandoning the measurement of competition by reference to output and price,³⁰ or even abandoning consumer welfare as an antitrust proscription altogether.³¹ It accuses retailers such as Amazon of engaging in “predatory pricing” without providing a

27 See Herbert Hovenkamp, *Antitrust and the Design of Production*, 103 CORNELL L. REV. 1155 (2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3013122.

28 See Hovenkamp, *Antitrust’s Consumer Welfare Principle*, *supra* note 1, (manuscript at 17); Zephyr Teachout & Lina Khan, *Market Structure and Political Law: A Taxonomy of Power*, 9 DUKE J. CONST. L. & PUB. POL’Y 37, 70–72 (2014).

29 See, e.g., Lina M. Khan, *The Ideological Roots of America’s Market Power Problem*, 127 YALE L.J.F. 960, 964–65, 965 n.20 (2018).

30 See Lina M. Khan, Note, *Amazon’s Antitrust Paradox*, 126 YALE L.J. 710, 716 (2017); see also David Dayen, *The Rehabilitation of Antitrust*, AM. PROSPECT (Dec. 22, 2017), <http://prospect.org/article/rehabilitation-antitrust>; Maurice E. Stucke & Ariel Ezrachi, *The Rise, Fall, and Rebirth of the U.S. Antitrust Movement*, HARV. BUS. REV. (Dec. 15, 2017), <https://hbr.org/2017/12/the-rise-fall-and-rebirth-of-the-u-s-antitrust-movement>.

31 See, e.g., Barry C. Lynn, Exec. Dir., Open Markets Inst., *The Consumer Welfare Standard in Antitrust: Outdated or a Harbor in a Sea of Doubt?*, Testimony before the Senate Committee on the Judiciary: Subcommittee on Antitrust, Competition, and Consumer Rights (Dec. 13, 2017), <https://www.judiciary.senate.gov/imo/media/doc/12-13-17%20Lynn%20Testimony.pdf>.

coherent definition of the practice.³² It never explains how a nonmanufacturing retailer such as Amazon could ever recover its investment in below-cost pricing by later raising prices, and even disputes that raising prices to higher levels ever needs to be a part of the strategy, thus indicating that it is confusing predation with investment.³³ Charging low but profitable prices indefinitely is not unlawful “predatory pricing” nor is forcing suppliers to price competitively.

The movement antitrust attack on “consumer welfare” reflects both a misunderstanding of that term, and an exaggeration of its influence on recent antitrust jurisprudence. This point is critical because much of movement antitrust blames the consumer welfare principle for the current state of antitrust law. Consumer welfare as it is properly used today refers to the welfare of consumers as consumers, pure and simple.³⁴ Speaking objectively, consumer welfare is improved by high output and low prices, as well as high quality. Under this definition the welfare of producers, competitors, or anyone other than consumers who might be affected by a practice is ignored. In addition to its substantive advantages, this principle has a powerful administrative advantage: it does not require courts to compute welfare “tradeoffs,” because there is nothing to trade off.³⁵

In sharp contrast, Robert Bork very famously used the term “consumer welfare” when he was really referring to the combined welfare of both producers and consumers.³⁶ He observed that an economic tradeoff occurs when a supplier practice causes monopolistic increases in consumer prices but also reduces the supplier’s costs.³⁷ Most peculiarly, for Bork the word “consumer” referred to suppliers as well as customers.³⁸ For Bork, a practice that generated one hundred dollars in seller profits but buyer losses of sixty dollars would be counted as a net improvement of “consumer welfare.” Bork also believed, however, that actual computation of welfare tradeoffs in individual cases would be too difficult. Further, an attempt to do so would overlook important efficiencies. Rather, efficiencies should be presumed, even

32 Khan, *supra* note 30, at 722–24; *id.* at 753 (preferring growth over profits is a form of predatory pricing); *id.* at 759 (suggesting that loss leader pricing is a form of predatory pricing).

33 See *id.* at 729–30.

34 See Steven C. Salop, *Question: What Is the Real and Proper Antitrust Welfare Standard? Answer: The True Consumer Welfare Standard*, 22 LOY. CONSUMER L. REV. 336, 336 (2010).

35 See Herbert Hovenkamp, *Appraising Merger Efficiencies*, 24 GEO. MASON L. REV. 703, 719–21 (2017) [hereinafter Hovenkamp, *Appraising Merger Efficiencies*]; Herbert Hovenkamp, *The Rule of Reason*, 70 FLA. L. REV. 81, 119 (2018) [hereinafter Hovenkamp, *The Rule of Reason*].

36 See Salop, *supra* note 34, at 347. For an illuminating discussion of Bork’s use of the term, see Daniel A. Crane, *The Tempting of Antitrust: Robert Bork and the Goals of Antitrust Policy*, 79 ANTITRUST L.J. 835, 845–47 (2014).

37 See BORK, ANTITRUST PARADOX, *supra* note 10, at 107.

38 *Id.* at 108 (observing that “consumers” have both suffered from “lost output” but have also gained in resource saving from the cost reduction; however, the latter gains accrue to the producers, not to the purchasers).

when the challenged practice creates market power.³⁹ That presumption of efficiency without proof is one of the most controversial aspects of Bork's approach to the welfare question.

These two understandings of consumer welfare have produced a troublesome ambiguity in antitrust law ever since. For example, some of those who write in movement antitrust today attribute the consumer welfare principle to Bork,⁴⁰ and as a result blame it for higher prices that accrue to producers. But the important thing is that high producer profits for Bork was part of the consumer welfare that antitrust law should produce.

This ambiguity about definition has also affected Supreme Court usage of "consumer welfare." The Supreme Court has never categorically embraced any particular definition of consumer welfare, even though it has used the term several times. Six majority opinions speak of consumer welfare. Two were quotations from Bork's *The Antitrust Paradox*, suggesting that the Court was either speaking of producer welfare as well, or else that it did not appreciate the difference between Bork's definition and true consumer welfare.⁴¹ Plaintiffs won both cases, however, and the holdings are consistent with true consumer welfare. Indeed, in one of them, *Reiter v. Sonotone Corp.*, the Supreme Court held that end-use consumers had standing to pursue price fixing, making it an important consumer welfare decision.⁴²

Of the remaining four uses, two involved predatory pricing cases observing that consumer welfare would be enhanced by a period of below-cost pricing that was not followed by recoupment of losses through subsequent higher prices.⁴³ That would very likely be true. An unsuccessful attempt at predatory pricing would result in lower consumer prices temporarily, but no subsequent period of high prices. The final uses of consumer welfare are related to the *Leegin Creative Leather Products, Inc. v. PSKS, Inc.* decision holding that some instances of resale price maintenance may promote consumer welfare. The first was *Leegin* itself⁴⁴ and the second was *Ohio v. American Express Co.*, making essentially the same observation.⁴⁵ That could also be true under either definition of consumer welfare.

39 *Id.* at 107–10, 128–29.

40 *E.g.*, Lynn, *supra* note 31; *see also* David McLaughlin, *Forget Consumer Welfare. This Antitrust Movement Targets Power Instead*, BLOOMBERG BUSINESSWEEK (Jan. 17, 2018), <https://www.bloomberg.com/news/articles/2018-01-17/forget-consumer-welfare-this-antitrust-movement-targets-power-instead>.

41 *See Reiter v. Sonotone Corp.*, 442 U.S. 330, 343 (1979) (quoting BORK, ANTITRUST PARADOX, *supra* note 10, at 66) (granting standing to consumers in price fixing case); *NCAA v. Bd. of Regents of the Univ. of Okla.*, 468 U.S. 85, 107 (1984) (quoting *Reiter*, 422 U.S. at 343) (condemning output restriction under rule of reason).

42 *Reiter*, 442 U.S. 330.

43 *See Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*, 549 U.S. 312, 324 (2007); *Brooke Grp. Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 223 (1993).

44 *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 889 (2007).

45 *Ohio v. Am. Express Co.*, 138 S. Ct. 2274, 2290 (2018) (citing *Leegin*, 551 U.S. at 890–91).

Four additional usages of the term are in dissents.⁴⁶ Finally, the term appeared in Justice Brennan’s concurring opinion in the *Jefferson Parish Hospital District No. 2 v. Hyde* tying case. Justice Brennan observed that some ties could impair horizontal competition, injuring consumer welfare.⁴⁷ A few other cases never use the phrase “consumer welfare” but do speak more generally about benefits to consumers.⁴⁸ None of these Supreme Court decisions distinguish the Bork definition of consumer welfare from the true consumer welfare position. Beyond the Supreme Court, the strongest case for application of a consumer welfare principle is in merger law under the Horizontal Merger Guidelines, which embrace a consumer welfare principle to the extent that they tie merger policy to the effect on output and consumer prices.⁴⁹

One of the most disturbing things about movement antitrust is its indifference or even disparagement of low consumer prices. Without citing any evidence, some of its protagonists proclaim that most Americans are not concerned with high prices that might result from monopoly, but rather with “loss of their properties, hence their independence, even their dignity.”⁵⁰ They recommend harsh rules against vertical integration without ever stating a test, other than a very general suggestion that vertical integration leads to leveraging and foreclosure.⁵¹ They call for a return to the merger enforcement standards expressed in the 1968 Merger Guidelines—for example, blocking any merger between a firm with fifteen percent of a market and any other firm whose market share is one percent or more. The relevance of

46 See *FTC v. Actavis, Inc.*, 570 U.S. 136, 161–62 (2013) (Roberts, C.J., dissenting) (contrasting consumer welfare concerns of antitrust with limited monopoly created by patent laws); *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451, 487 (1992) (Scalia, J., dissenting) (observing that per se rule against tying condemns them without inquiry into consumer welfare); *Atl. Richfield Co. v. USA Petrol. Co.*, 495 U.S. 328, 361 (1990) (Stevens, J., dissenting) (accusing majority of rejecting consumer welfare); *Arizona v. Maricopa Cty. Med. Soc’y*, 457 U.S. 332, 367 (1982) (Powell, J., dissenting) (arguing per se rule against maximum price fixing contrary to consumer welfare).

47 *Jefferson Par. Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 45 (1984) (Brennan, J., concurring), *abrogated by Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006). In addition, Justice Breyer used the term in one nonantitrust case, although he was referring to antitrust. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 539 (2013) (noting purpose of antitrust policy is to maximize consumer welfare in a copyright exhaustion case).

48 See *State Oil Co. v. Khan*, 522 U.S. 3, 14 (1997) (some uses of maximum resale price maintenance can benefit consumers); *Copperweld Corp. v. Indep. Tube Corp.*, 467 U.S. 752, 769 (1984) (centralized management can benefit consumers); *United States v. Phila. Nat’l Bank*, 374 U.S. 321, 367–68 (1963) (anticompetitive mergers can reduce consumers’ alternatives); see also *United States v. Topco Assocs.*, 405 U.S. 596, 624 (1972) (Burger, C.J., dissenting) (accusing majority’s decision of being detrimental to consumers).

49 See U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, HORIZONTAL MERGER GUIDELINES §§ 1, 6, 7, 9, 10 (2010), <https://www.justice.gov/atr/horizontal-merger-guidelines-08192010> [hereinafter HORIZONTAL MERGER GUIDELINES].

50 Lynn, *supra* note 31.

51 See *Khan*, *supra* note 30, at 733–34.

these numbers is not apparent, other than their suggestion that firms are currently too big.⁵²

Clearly, high prices are not the target. The movement's proponents denigrate the importance of prices to merger analysis—for example, objecting to the fact that, while the 1968 Merger Guidelines were not particularly focused on consumer prices, guidelines issued in the 1980s and after were. Indeed, low prices appear to be the enemy that antitrust must combat.⁵³ Movement protagonists argue in favor of resale price maintenance, not in order to promote lower cost distribution, but rather to protect less efficient retailers' higher margins from predatory pricing—without any evidence of a type of predatory pricing that resale price maintenance could combat.⁵⁴ They enthusiastically embrace Louis Brandeis's repeated arguments that “price-cutting” is in fact “the most potent weapon of monopoly—a means of killing the small rival.”⁵⁵ Much of the resale price maintenance that Brandeis supported occurred at the behest of dealer cartels who forced suppliers to use resale price maintenance as a way of disciplining price cutters.⁵⁶

Certainly, big business can cause harm to the lives of Americans in other ways than through competitive pricing. But these ways need to be articulated, supported by evidence, and then sorted into those things that are conceivably within the domain of antitrust and those that are not. Promiscuous application of the antitrust laws so as to make big firms smaller and prices higher could cause irreparable harm, not only to consumers, but to the entire economy.

Another point is critical to effective operation of the economy: When considering efficiency, it is one thing to complain about loss of allocative efficiency or market competitiveness. It is quite another to complain about productive efficiency, which often results from plain old engineering and management. A sensible antitrust policy toward practices such as vertical integration must attempt to identify practices that raise prices by increasing the opportunities for exercising market power, and distinguish them from practices that reduce production or distribution costs. Sledgehammer proposals to go after concentration or vertical integration without regard to output effects might in some cases bring prices closer to marginal costs, but marginal costs would in most cases be higher.

52 See Lynn, *supra* note 31.

53 See *id.* (objecting that the word “price” appears far more frequently in the 1984 Guidelines than it did in the 1968 Guidelines). The testimony writes about the 1984 Guidelines as if they were the current ones.

54 See Khan, *supra* note 30, at 723–24.

55 Lynn, *supra* note 31 (quoting Louis D. Brandeis, *Competition that Kills*, HARPER'S WKLY., Nov. 15, 1913, <https://louisville.edu/law/library/special-collections/the-louis-d.-brandeis-collection/business-a-profession-chapter-15>).

56 See HERBERT HOVENKAMP, ENTERPRISE AND AMERICAN LAW 1836–1937, at 331, 341–48 (1991).

In any event, the idea that Americans are unconcerned about low prices cannot simply be asserted. It needs to be tested. Most obviously, it conflicts with actual consumer behavior. Within the vision of movement antitrust, Amazon is a menace because it makes so many sales—and all of these to consumers who apparently do not want low prices. My own instinct is that if a goal of supporting higher prices in order to benefit competing businesses were communicated clearly, it would be a political disaster. Small business represents an important part of the economy, but everyone is a consumer. Further, people in the lower two-thirds of the economic distribution are particularly sensitive to price. So to the extent that it is Democrats who are supporting this antitrust war on low prices, they are harming their own constituencies.⁵⁷ More objectively, embracing an ideology of supporting lower output and higher prices would be a disaster for the American economy, which is in much fiercer competition with other world economies than it was in the mid-twentieth century when Hofstadter, Bowman, and Bork were writing.

The antitrust *cognoscenti* may not take movement antitrust arguments seriously, regarding them as economically ill-informed, untested, excessively rhetorical, incoherent, or paranoid. But the *cognoscenti* control neither political parties nor ballot boxes. The danger that the political process will force government policy off the rails is real. It would hardly be the first time that a political party pursued the ideology of an extremist minority at the expense of its true constituency.

I. TECHNICAL ANTITRUST

Uncovering the many inconsistencies and weaknesses of movement antitrust is easy. But technical antitrust has its own shortcomings. “Technical antitrust” refers to a set of antitrust rules that begin with a picture of some best set of social circumstances reasonably achievable through the antitrust laws. Then it relies on evidence and experts to develop an approach that tries to give effect to them, consistent with the substantial limitations of the institutions that make antitrust policy. The goals are coherent, although the means of attaining them can be controversial. For example, chief among them in United States antitrust policy is some conception of efficiency (both allocative and productive), procedural due process, and federalism. In some circumstances, efficiency and either due process or federalism trade against each other.⁵⁸ The consumer welfare principle is a prominent example of technical antitrust, but so are more general welfare tests such as Bork’s proposal that includes producer welfare, or others that might include aggregate social welfare.

Both technical antitrust and movement antitrust suffer from weaknesses, making each prone to sharp criticism from the other side. Technical anti-

⁵⁷ See Hovenkamp, *Antitrust’s Consumer Welfare Principle*, *supra* note 1, (manuscript at 37).

⁵⁸ See *infra* Section II.F.

trust often appears to be underdeterrent because of its insistence on due process and rationality, administrability and clear proof.⁵⁹ By contrast, movement antitrust often makes claims that are impossible to deliver, or adopts speculative, unprovable theories about competitive harm. As a result, movement antitrust tends to be overdeterrent, certainly when tested by the goals of low prices or economic efficiency.⁶⁰ Technical antitrust typically sees optimal policy as driven by the market, while movement antitrust is more responsive to political concerns. Technical antitrust is concerned about testability of antitrust rules, although it must confront the fact that testing is sometimes difficult.⁶¹ Movement antitrust appears to be unconcerned with testability.

The legitimate concerns of antitrust law must be driven by some conception of what citizens are entitled to expect from business and their economy. Further, antitrust law is only one of many legal policies that address this concern. Antitrust law's principal concern is with market power and not with political power as such, although political power may become relevant when it becomes a path to the creation of market power and in ways that antitrust is competent to address. This occurs mainly when politicians delegate the control of governmental machinery to self-interested private parties. Even this overstates the case for antitrust control over political power. The Constitution as well as other institutions of government often serve to immunize economically harmful political activity that might otherwise be actionable under the antitrust laws.⁶² Most obviously, interest group capture represents uses of political power to obtain outcomes that are economically harmful, in the sense that they cause unjustified high prices or unreasonably limit competitor access to markets.⁶³

The consumer welfare principle has also been criticized for focusing unnecessarily on the short run.⁶⁴ That criticism is misplaced. In fact, any antitrust policy that is concerned with rational fact finding and due process will find many long-run concerns to be unmanageable. The history of preda-

59 *E.g.*, Khan, *supra* note 30, at 710 (associating consumer welfare principle with excessive focus on short-run concerns).

60 *See* Carl Shapiro, *Antitrust in a Time of Populism*, 61 INT'L J. INDUS. ORG. (forthcoming 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3058345.

61 *See infra* notes 277–79 and accompanying text.

62 For example, this is the effect of the *Noerr-Pennington* doctrine, particularly when the issue pertains to successful lobbying of legislative bodies. *See* E. R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 129, 135 (1961) (antitrust immunity for firms that lobbied for an anticompetitive regulatory provision designed to benefit railroads and harm truckers); *see also* 1 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶¶ 201–03 (4th ed. 2013).

63 Contrast the decision in *North Carolina State Board Dental Examiners v. FTC*, 135 S. Ct. 1101 (2015), which struck down state-sanctioned, privately enforced exclusionary conduct, permitting only licensed dentists to whiten teeth, under the antitrust laws, and *Sensational Smiles, LLC v. Mullen*, 793 F.3d 281 (2d Cir. 2015), which immunized the same conduct, when publicly enforced, from equal protection attack. On the “state action” doctrine, *see infra* notes 211–17 and accompanying text.

64 *See* Khan, *supra* note 30, at 710.

tory pricing law illustrates the problem. There is widespread agreement among economists that welfare-reducing strategic pricing is possible in situations involving dominant firms. In the long run these strategies lead to lower output and higher prices than would prevail under more competitive conditions. Further, modeling some of these situations is not difficult.⁶⁵

But the models are for the most part existence theorems. An antitrust court has the much more difficult task of examining practices and ruling out harmless alternative explanations.⁶⁶ Further it must be able to do this by means of a rational, defensible process that gives firms notice of what they can and cannot do, and then provides a defensible remedy. For example, so-called “limit” pricing is a strategy in which a dominant firm, typically in an industry with high fixed costs, sets an above-cost price below its short-run profit maximizing price but low enough to either exclude rivals or limit their growth.⁶⁷ An antitrust court assessing such a situation would have to determine the “correct” price, and perhaps order the firm to increase its already profitable price even further in order to permit entry.

By contrast, the Areeda-Turner test for predatory pricing, which currently dominates in the federal courts, is limited to nonsustainable, short-run strategies. Its success among the courts owes to the fact that—notwithstanding its own technical difficulties—it is much closer to being rationally administrable than any of the long-run alternatives.⁶⁸ The limitation is

65 See 3A PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* ¶¶ 736–37 (4th ed. 2015) (summarizing long-run pricing strategies).

66 A good example is *E. I. DuPont de Nemours & Co.*, 96 F.T.C. 653 (1980). The FTC declined to proceed against an above-cost exclusionary pricing practice after a lengthy investigation. DuPont developed a very efficient mechanism for producing titanium dioxide which required a large scale. It then allegedly built a much larger plant than needed to meet market demand, simply to hold out its excess capacity as an entry deterrence device. The Commission concluded that based on the facts presented it was impossible to distinguish this conduct from competitive behavior, concluding:

[T]he essence of the competitive process is to induce firms to become more efficient and to pass the benefits of the efficiency along to consumers. That process would be ill-served by using antitrust to block hard, aggressive competition that is solidly based on efficiencies and growth opportunities, even if monopoly is a possible result.

Id. at 750–51. On the theory, see Oliver E. Williamson, *Predatory Pricing: A Strategic and Welfare Analysis*, 87 *YALE L.J.* 284 (1977).

67 3A AREEDA & HOVENKAMP, *supra* note 65, ¶ 736. For alternative models, see PAUL A. GEROSKI, *MARKET DYNAMICS AND ENTRY* (1991); 1 RICHARD S. MARKOVITS, *ECONOMICS AND THE INTERPRETATION AND APPLICATION OF U.S. AND E.U. ANTITRUST LAW* 517–18 (2014); Aaron S. Edlin, *Predatory Pricing: Limiting Brooke Group to Monopolies and Sound Implementation of Price-Cost Comparisons*, 127 *YALE L.J.F.* 996 (2018); Aaron S. Edlin, Essay, *Stopping Above-Cost Predatory Pricing*, 111 *YALE L.J.* 941 (2002); Richard J. Gilbert, *The Role of Potential Competition in Industrial Organization*, 3 *J. ECON. PERSP.*, 107 (1989); Robert E. Hall, *Potential Competition, Limit Pricing, and Price Elevation from Exclusionary Conduct*, in 1 *AM. BAR. ASSOC., ISSUES IN COMPETITION LAW AND POLICY* 433, 433–40 (2008).

68 See Herbert Hovenkamp, *The Areeda-Turner Test for Exclusionary Pricing: A Critical Journal*, 46 *REV. INDUS. ORG.* 209, 220 (2015).

decidedly not a function of the consumer welfare principle, however. It is driven entirely by fact-finding limitations on courts and the constitutional requirement of rational decisionmaking supported by evidence.

Hofstadter's observation that technical antitrust has largely become invisible to the public remains apt. The appeal of movement antitrust is that it invokes images calculated to get the public more excited about antitrust. At one level, of course, awareness is a good thing, but public awareness is not the same thing as rational decisionmaking. Antitrust is an excellent example of why the American constitutional system is a republic and not a direct democracy. This entails two things. First, the Constitution places limits on how far the public can go in threatening property, contract, and liberty rights, as well as the extent to which citizens are entitled to reasonable and rational public decisionmaking. Second, the principal role of citizen voters is to elect governing officials, entrusting them to act wisely in the making and administration of technical rules of law. Ever since Alexander Hamilton's role as the new government's financial manager, our constitutional republic has relied on appointed experts to make decisions. In our more complicated society we use them more, but they are hardly an invention of the twenty-first century or, for that matter, even the New Deal.

Has antitrust's increasing pursuit of technical rules made the discipline dull or, more importantly, irrelevant or ineffective? Or is technique simply a way for antitrust to make rational rules within its area of competence, leaving other economic questions to different parts of government? One clear consequence of pursuing technical antitrust rules is that the range of problems that antitrust is competent to address becomes narrower.⁶⁹ Another is underdeterrence. Relevant underdeterrence is not the same thing as incorrect outcomes. In a world where rules are imperfect and decision-making institutions (such as jury trials) even more so, a certain number of incorrect outcomes is to be expected. But these outcomes should be more-or-less randomized, producing a balance of false positives and false negatives. By contrast, underdeterrence occurs when a substantive or procedural rule systematically fails to recognize and remedy a particular type of harmful practice.

The claim that technical antitrust is underdeterrent has some traction. Because plaintiffs usually have the burden of proof and defendants are entitled to due process, uncertainties are often resolved in favor of defendants. When uncertainties loom large, as they often do in antitrust cases, this naturally invites the critique that antitrust rules in complex areas produce too many false negatives. Here again, predatory pricing provides a good example. The two leading schools of technical antitrust—classic Chicago and the Harvard school after 1975—take quite different approaches.⁷⁰ The orthodox Chicago school simply assumed that predatory pricing was so irrational

69 See *infra* notes 211–13 and accompanying text.

70 See *infra* notes 86–87 and accompanying text.

that it should always be lawful.⁷¹ By contrast, the Harvard approach never made such strong claims. Rather, it assumed that the conditions and practices producing anticompetitive outcomes are uncommon and require clear proof based on objective criteria. The Supreme Court has nearly always followed the Harvard approach.⁷² Nevertheless, results do not differ all that much. Under existing predatory pricing law, plaintiffs rarely win cases.

The same thing is a little less true for vertical practices, including vertical mergers. Historically, the Chicago school believed they should be virtually per se legal, with a narrow exception for vertical practices that facilitate horizontal collusion.⁷³ The Harvard school, by contrast, believed that competitive harm from purely vertical practices was uncommon but still possible, and preferred subjecting them to the rule of reason. Once again, the Supreme Court has generally followed the Harvard approach.⁷⁴ The antitrust agencies continue to have an active vertical merger enforcement policy.⁷⁵ Here the story is a little different than for predatory pricing. Defendants do occasionally lose vertical cases, but not that many, and the proof requirements are stringent.⁷⁶ When they do lose them, lack of foreclosure rather than facilitation of collusion is usually the reason, indicating that the Harvard school dominates in this area. In very sharp contrast, movement antitrust makes expansive claims about these practices that are technically undisciplined, untestable, and even incoherent.⁷⁷ Movement antitrust claims are lodged, variously, against absolute size, industrial concentration, high prices, leverage, and unspecified injury to small business. Little in the way of administrable rules has thus far emerged—at least if one insists on a provable link between a given practice and competitive injury.

Much of the discrepancy between movement antitrust and technical antitrust results from the sparse language of the principal antitrust laws. The Sherman Act in particular speaks with expansive breadth about restraints on trade or monopolization, without giving those terms any definition. The Clayton Act is a little more precise, addressing price discrimination,⁷⁸ tying

71 *E.g.*, BORK, ANTITRUST PARADOX, *supra* note 10, at 144–48; Frank H. Easterbrook, *Predatory Strategies and Counterstrategies*, 48 U. CHI. L. REV. 263, 268 n.14 (1981).

72 *See infra* notes 90–96 and accompanying text.

73 *See* Section II.B.

74 *See* Section II.B.

75 *See* D. Bruce Hoffman, Acting Dir., Bureau of Competition, Fed. Trade Comm’n, Remarks at Credit Suisse 2018 Washington Perspectives Conference: Vertical Merger Enforcement at the FTC (Jan. 10, 2018), <https://www.ftc.gov/public-statements/2018/01/vertical-merger-enforcement-ftc> (noting that antitrust agencies challenge between thirty and forty horizontal mergers per year and about one vertical merger per year).

76 Examples of government victories include *McWane, Inc. v. FTC*, 783 F.3d 814 (11th Cir. 2015); *United States v. Dentsply International, Inc.*, 399 F.3d 181 (3d Cir. 2005); and *United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001). *See also* ZF Meritor, LLC v. Eaton Corp., 696 F.3d 254 (3d Cir. 2012) (private plaintiff victory).

77 *E.g.*, Khan, *supra* note 30, at 731–36 (discussing vertical integration).

78 15 U.S.C. § 13 (2012).

and exclusive dealing,⁷⁹ and mergers.⁸⁰ But the relevant effects language, “substantially to lessen competition” or “tend to create a monopoly,” is so general that it can mean practically anything.⁸¹ Indeed, the same statutory language was used in *Brown Shoe Co. v. United States*, a merger case, to condemn the low prices that result from a merger,⁸² while today it reaches only mergers that threaten higher prices.⁸³ That opacity was very likely intended, because the Clayton Act has a statutory dictionary which defines “antitrust laws,” “commerce,” and “person,” but does not define “competition” or “monopoly.”⁸⁴ No wonder people peering into the antitrust laws come to wildly different conclusions about what they can do.

The expansive, vague language of the antitrust laws also gives rise to the feeling that the antitrust laws can do all things for all people, and over the decades that is precisely how some constituencies have viewed them. Movement antitrust has always found this ambiguity attractive because it enables its protagonists to pursue an agenda without having to go to a Congress that is likely to be unsympathetic. Attaining wealth equality, combatting structure for its own sake, or strengthening the power of employees is far more effectively done legislatively, but only if Congress is minded to act.⁸⁵

II. TECHNICAL ANTITRUST: GOALS, SOURCES, AND LIMITATIONS

Technical antitrust today comes mainly from the Harvard and Chicago schools, which started in different places but began to converge in the late 1960s and 1970s.⁸⁶ Where the two schools have differed, the Supreme Court has usually followed the Harvard approach. As a result, the work of Bork, Bowman, Posner, Easterbrook and other Chicago scholars needs to be placed in perspective, although Posner was also a renegade who departed from Chicago school orthodoxy more than the others. In general, the Chicago school proposals were more laissez faire than Harvard school approaches, calling for less antitrust intervention. Specific Chicago school recommendations generally obtained more traction in the academic literature than in the caselaw.

Speaking very generally, the policy changes that gave rise to current antitrust policy occurred mainly in the late 1970s and 1980s. During that period, antitrust became less interventionist and more responsive to then-current

79 *Id.* § 14.

80 *Id.* § 18.

81 *Id.* § 13(a).

82 *Brown Shoe Co. v. United States*, 370 U.S. 294 (1962).

83 *See, e.g.*, HORIZONTAL MERGER GUIDELINES, *supra* note 49.

84 15 U.S.C. § 12.

85 On this point, see Herbert Hovenkamp, *Antitrust Policy and Inequality of Wealth* 1–2 (Univ. Pa. Inst. Law & Econ., Paper No. 17-26, 2017).

86 For good perspectives, see Richard A. Posner, *The Chicago School of Antitrust Analysis*, 127 U. PA. L. REV. 925, 933–36 (1979), who observes that the two positions have “since overlapped, converged, or crossed over.” *Id.* at 925; *see also* William E. Kovacic, *The Intellectual DNA of Modern U.S. Competition Law for Dominant Firm Conduct: The Chicago/Harvard Double Helix*, 2007 COLUM. BUS. L. REV. 1, 74–75.

economic theory. The late 1970s witnessed the production of some remarkable, highly influential books, including Posner's original *Antitrust Law: An Economic Perspective* (1976);⁸⁷ Bork's *The Antitrust Paradox* (1978);⁸⁸ and the first five volumes of Phillip Areeda and Donald Turner's *Antitrust Law* treatise (1978, 1980).⁸⁹ From this period through 1990 the Supreme Court deviated rightward from a path in which the government won nearly all of its antitrust cases and private plaintiffs won many, to one that was far more favorable to defendants. The most important decisions on the merits that reflect this shift are *United States v. Marine Bancorporation, Inc.* and *United States v. General Dynamics Corp.* from 1974;⁹⁰ *Continental T. V., Inc. v. GTE Sylvania Inc.*, *Illinois Brick Co. v. Illinois*, *U.S. Steel Corp. v. Fortner Enterprises*, and *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.* from 1977;⁹¹ *J. Truett Payne Co. v. Chrysler Motors Corp.* from 1981,⁹² *Associated General Contractors of California v. California State Council of Carpenters*,⁹³ *Copperweld Corp. v. Independence Tube Corp.* and *Jefferson Parish Hospital District No. 2 v. Hyde* from 1984;⁹⁴ *Cargill, Inc.*

87 RICHARD A. POSNER, *ANTITRUST LAW: AN ECONOMIC PERSPECTIVE* (1976) [hereinafter POSNER, *ANTITRUST LAW*]. RICHARD A. POSNER, *ANTITRUST LAW* (2d ed. 2001) purports to be a second edition, but is so thoroughly revised that it is really a different book.

88 BORK, *ANTITRUST PARADOX*, *supra* note 10.

89 1–5 PHILLIP E. AREEDA & DONALD TURNER, *ANTITRUST LAW* (1978–80). For subsequent volumes, see PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* (22 vols., 3d & 4th eds., 2010–2017).

90 *United States v. Marine Bancorporation, Inc.*, 418 U.S. 602 (1974) (refusing to condemn conglomerate merger because of low entry barriers(citing PHILLIP AREEDA, *ANTITRUST ANALYSIS* 517 (1967)); *United States v. Gen. Dynamics Corp.*, 415 U.S. 486 (1974) (refusing to condemn horizontal/product extension merger); *see also* *United States v. Conn. Nat'l Bank*, 418 U.S. 656 (1974) (refusing to condemn merger).

91 *Cont'l T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (vertical nonprice restraints must be analyzed under rule of reason (first citing Richard A. Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 COLUM. L. REV. 282, 299 (1975), and then citing Robert H. Bork, *The Rule of Reason and the Per Se Concept: Price Fixing and Market Division II*, YALE L.J. 373, 391–429 (1965)); *Ill. Brick Co. v. Illinois*, 431 U.S. 720 (1977) (denying indirect purchasers a damages recovery); *id.* at 748 (Brennan, J., dissenting) (first citing RICHARD A. POSNER, *ANTITRUST CASES, ECONOMIC NOTES, AND OTHER MATERIALS* 147–49 (1974), and then citing PHILLIP E. AREEDA, *ANTITRUST ANALYSIS* 635 (2d ed. 1974)); *U.S. Steel Corp. v. Fortner Enters.*, 429 U.S. 610 (1977) (adding serious market power requirement to tying cases); *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477 (1977) (denying antitrust standing to firm that was not victim of “antitrust injury”).

92 *J. Truett Payne Co. v. Chrysler Motors Corp.*, 451 U.S. 557, 561 (1981) (rejecting Robinson-Patman “automatic damages” rule).

93 *Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519, 545–46 (1983) (denying standing to plaintiff who could not show relationship between its injury and harm to competition); *id.* at 550 n.7 (Marshall, J., dissenting) (citing 2 AREEDA & TURNER, *supra* note 89).

94 *Copperweld Corp. v. Indep. Tube Corp.*, 467 U.S. 752, 777 (1984) (corporate parent and wholly owned subsidiary lacked conspiratorial capacity); *Jefferson Par. Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984) (strengthening market power for tying, citing scholars including Areeda, Areeda & Turner, and Posner), *abrogated by* *Ill. Tool Works, Inc., v. Indep. Ink.*

v. Monfort of Colorado, Inc. and Matsushita Electric Industrial Co. v. Zenith Radio Corp., from 1986;⁹⁵ and *Atlantic Richfield Co. v. USA Petroleum Co.*, from 1990.⁹⁶

Aside from antitrust, however, the Supreme Court moved much more generally rightward under the direction of three consecutive Republican Chief Justices: Warren Burger, William Rehnquist, and John Roberts.⁹⁷ While all three were conservative politically, none has ever expressed much affinity for either the Chicago school or the Harvard school as such. This fact raises a question about the extent to which changes in antitrust direction were really inspired by either of these antitrust schools; or did they simply reflect a general change in the direction of political ideology? Of course, the two theories are not mutually exclusive.

Since the 1970s the term “Chicago school” has often served as a kind of whipping boy for critics of any antitrust policy that is noninterventionist or that favors defendants.⁹⁸ On the other side, it has been credited by admirers for what they see as antitrust’s greatest achievements.⁹⁹

The Chicago school has had considerable influence on both antitrust decisionmaking and scholarship. Nevertheless, at the level of specific rulemaking, the course pursued was most generally that proposed by the Harvard school. That remains true to this day. Speaking generally, antitrust has tended to take a moderate position between extremes, reflecting an insistence that theories of both competitive harm and offsetting explanations be

Inc., 547 U.S. 28 (2006); *id.* at 36 (O’Connor, J., concurring) (citing BORK, ANTITRUST PARADOX, *supra* note 10, at 372–74).

95 *Cargill, Inc. v. Monfort of Colo., Inc.*, 479 U.S. 104, 119 & n.15, 121 & n.17 (1986) (first citing Phillip Areeda & Donald F. Turner, *Williamson on Predatory Pricing*, 87 YALE L.J. 1337, 1348 (1978) [hereinafter Areeda & Turner, *Williamson*]; then citing BORK, ANTITRUST PARADOX, *supra* note 10, at 144–59; and then citing Posner, *supra* note 86, at 939–40) (denying standing to competitor alleging aggressive pricing as a consequence of merger); *Matsushita Elec. Indus. Co., v. Zenith Radio Corp.*, 475 U.S. 574, 589, 598 (1986) (first citing Easterbrook, *supra* note 71, at 268; then citing BORK, ANTITRUST PARADOX, *supra* note 10, at 149–55; and then citing Phillip Areeda & Donald F. Turner, *Predatory Pricing and Related Practices Under Section 2 of the Sherman Act*, 88 HARV. L. REV. 697, 698 (1975) [hereinafter Areeda & Turner, *Predatory*]) (greatly expanding criteria for summary judgment in case involving claims of agreement and predatory pricing).

96 *Atl. Richfield Co. v. USA Petrol. Co.*, 495 U.S. 328, 339–43, 343 n.13 (1990) (first citing Areeda & Turner, *Predatory*, *supra* note 95, at 697–99; then citing Robert H. Bork, *The Rule of Reason and the Per Se Concept: Price Fixing and Market Division* (pt. 2), 75 YALE L.J. 373, 464 (1966); and then citing Frank H. Easterbrook, *Maximum Price Fixing*, 48 U. CHI. L. REV. 886, 887–90 (1981)) (holding plaintiff injured by competitor’s maximum resale price maintenance did not suffer antitrust injury).

97 There were actually four consecutive Republican Chief Justices. Earl Warren was also a Republican appointee (he was the Republican Governor of California and an Eisenhower appointee) but the most liberal Chief Justice in American history.

98 *E.g.*, HOW THE CHICAGO SCHOOL OVERSHOT THE MARK: THE EFFECT OF CONSERVATIVE ECONOMIC ANALYSIS ON U.S. ANTITRUST (Robert Pitofsky ed., 2008).

99 See Alan J. Meese, *Justice Scalia and Sherman Act Textualism*, 92 NOTRE DAME L. REV. 2013 (2017) (attributing many of the developments discussed here to the Chicago school, and partly to Justice Scalia’s interpretation of the Sherman Act).

well developed, and that fact findings be both sufficient and justified. Today, both movement antitrust on the left and the reactionary leftovers of the Chicago school on the right reach the strong conclusions that they do by giving short shrift to these concerns.

To an extent, Bork himself was cut from the same cloth as the proponents of movement antitrust today: many of his views were more extreme than the literature, and he denigrated economic inquiry as often as he supported it. For example, just as movement antitrust tends to assume competitive harm without good evidence, Bork tended to assume that efficiencies explained most restrictive practices.¹⁰⁰ Further, he rejected any idea that they should be individually proved. Courts would get it wrong because they would overlook evidence of efficiencies rather than evidence of competitive harm.¹⁰¹ The Harvard school's approach to the rule of reason has the advantage that it takes evidence of both harm and offsetting justifications more seriously. It has the disadvantage that the rule of reason has become unduly cumbersome and costly to litigate.¹⁰²

What follows is a brief summary of the most important developments in antitrust doctrine since the 1970s.

A. *Predatory Pricing and Other Single-Firm Exclusionary Practices*

In the law of exclusionary (predatory) pricing, the traditional Chicago school view was that the practice was irrational and was so rare that the best rule should be *per se* legality.¹⁰³ Then-Professor Posner's position was not as extreme. He concluded that predatory pricing was not common, but that it "cannot be dismissed as inevitably an irrational practice."¹⁰⁴ The Harvard school position, which Areeda and Turner first articulated in 1975, was closest to Posner's, although their test for it was different.¹⁰⁵ They concluded that predatory pricing was a rational act only in the presence of a probability of recoupment,¹⁰⁶ and that the proper price standard for evaluating it was

100 See Hovenkamp, *Antitrust's Consumer Welfare Principle*, *supra* note 1.

101 See, e.g., *supra* notes 36–39 and accompanying text (discussing Bork and futility of trying to measure efficiencies); see *infra* notes 182–84 and accompanying text (discussing Bork and oligopoly).

102 See Hovenkamp, *The Rule of Reason*, *supra* note 35.

103 E.g., BORK, *ANTITRUST PARADOX*, *supra* note 10, at 144–48; Easterbrook, *supra* at 71; John S. McGee, *Predatory Price-Cutting: The Standard Oil (N.J.) Case*, 1 J.L. & ECON. 137 (1958).

104 POSNER, *ANTITRUST LAW*, *supra* note 87, at 186.

105 For Posner's test in 1976, see *id.* at 188–89 (proof of predatory pricing requires either (1) a price below short-run marginal cost; or (2) a price below long-run marginal cost with intent to exclude a competitor).

106 Areeda & Turner, *supra* note 95, at 698 (“[P]redation in any meaningful sense cannot exist unless there is a temporary sacrifice of net revenues in the expectation of greater future gains. Indeed, the classically-feared case of predation has been the deliberate sacrifice of present revenues for the purpose of driving rivals out of the market and then recouping the losses through higher profits earned in the absence of competition.”).

either short-run marginal cost or average variable cost.¹⁰⁷ The Supreme Court and lower courts have largely followed the Areeda-Turner formulation.¹⁰⁸ Testing in this area has proven to be extremely difficult. Among the more tested propositions in the economic literature—and an area where the Supreme Court failed—was the relationship between oligopoly and disciplinary pricing that was the subject of the *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.* litigation.¹⁰⁹ Given a long history of lockstep oligopoly pricing in the cigarette industry in question, and that the defendant's prices fell below average variable cost during the competitive period,¹¹⁰ the cost of a false positive would have been very low in comparison with the policy cost of a false negative. When combined with an “agreement” requirement that makes coordinated action very difficult to prosecute except in cases of explicit interseller communication,¹¹¹ antitrust policy has been left toothless against coordinated interaction, with only merger policy available to keep bad situations from becoming worse.¹¹²

B. Vertical Intrabrand and Interbrand Restraints; Foreclosure

The Chicago school position on vertical intrabrand restraints¹¹³ was that they were virtually never anticompetitive and the best rule for addressing them was *per se* legality. Bork concluded that “[a]nalysis shows that every vertical restraint should be completely lawful.”¹¹⁴ Posner, who was typically more moderate, largely agreed.¹¹⁵ The Harvard school position was that anticompetitive outcomes were infrequent but possible, and that vertical restraints should be addressed under the rule of reason, requiring case-by-case evaluation of power and anticompetitive effects. Speaking about both nonprice restraints and minimum and maximum resale price maintenance,

107 *Id.* at 716.

108 See *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*, 549 U.S. 312 (2007); *Brooke Grp. Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209 (1993). On the lower courts, see 3 AREEDA & HOVENKAMP, *supra* note 65, ¶¶ 725–42; Hovenkamp, *supra* note 68.

109 *Brooke Grp.*, 509 U.S. at 212.

110 *Id.* at 213–17.

111 See 6 PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* ¶¶ 1428–36 (4th ed. 2016).

112 See *infra* Sections II.D–E; see also Herbert Hovenkamp, *Prophylactic Merger Policy*, 69 HASTINGS L.J. (forthcoming 2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3090650 (discussing use of merger policy to reach coordinated interaction that antitrust is otherwise unable to reach).

113 Vertical intrabrand restraints limit distribution of the supplier's own brand. These include resale price maintenance and nonprice restraints such as location clauses or territory assignments.

114 BORK, *ANTITRUST PARADOX*, *supra* note 10, at 288.

115 Richard A. Posner, *The Next Step in the Antitrust Treatment of Restricted Distribution: Per Se Legality*, 48 U. CHI. L. REV. 6, 24 (1981).

the Supreme Court adopted the Harvard school position. The changes occurred over a period of thirty years.¹¹⁶

The story on interbrand restraints, which include exclusive dealing and tying, is much the same. Bork concluded that “there is every reason to believe that exclusive dealing and requirements contracts have no purpose or effect other than the creation of efficiency.”¹¹⁷ He criticized Phillip Areeda for arguing that exclusive dealing might cause anticompetitive foreclosure in some situations. This was consistent with his own belief that foreclosure theories of antitrust liability—namely, that a firm could use an exclusive contract or other practice to keep rivals out of the market—were bogus.¹¹⁸ In a lengthy discussion he analyzed many forms of tying and the rationales offered for them—including leverage, evasion of regulation, price discrimination, metering, cost savings, and protection of good will. He concluded that “[i]n our present state of knowledge, this means the law would accept the legality of all tying arrangements.”¹¹⁹

Bork’s *The Antitrust Paradox* was an “old economy” book, however, taking very little notice of intellectual property rights, networks and other recent technologies that have produced a great deal of tying litigation.¹²⁰ Posner was a little more constrained than Bork on exclusive dealing, finding it an “unlikely” strategy, but not one that could be ruled out altogether.¹²¹ On tying, he was also more qualified than Bork, finding possible grounds for condemning ties used for price discrimination.¹²²

The Harvard position on tying has evolved and is more complex. First, the old Harvard structuralist position twenty years prior to the publication of the *Antitrust Law* treatise was Carl Kaysen and Donald Turner’s argument in 1959 that tying should be illegal per se, although they believed that exclusive dealing should be subject to the rule of reason.¹²³ The *Antitrust Law* treatise did not get to tying and exclusive dealing until 1995–96, after Turner was gone and around the time of Areeda’s death.¹²⁴ In 1976, however, Areeda

116 See *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007) (holding vertical nonprice restraints must be analyzed under rule of reason and resale price maintenance); *Cont’l T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (same); see also *State Oil Co. v. Khan*, 522 U.S. 3 (1997) (same with maximum resale price maintenance).

117 BORK, *ANTITRUST PARADOX*, *supra* note 10, at 309.

118 *Id.* at 304 (quoting and critiquing AREEDA, *supra* note 91). For Bork’s rejection of foreclosure, see *infra* note 162 and accompanying text.

119 BORK, *ANTITRUST PARADOX*, *supra* note 10, at 380.

120 See Hovenkamp, *supra* note 27, at 102–03.

121 POSNER, *ANTITRUST LAW*, *supra* note 87, at 205.

122 *Id.* at 171–79.

123 See CARL KAYSEN & DONALD F. TURNER, *ANTITRUST POLICY: AN ECONOMIC AND LEGAL ANALYSIS* 157–60 (1959) (discussing per se rule for tying and rule of reason for exclusive dealing).

124 The relevant volumes are nine through eleven. See 9–11 PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* (4th ed. forthcoming 2018). The first editions were published in 1995 and 1996. Volumes nine and ten address tying; eleven addresses exclusive dealing. Turner died in 1994 and Areeda in 1995.

wrote an article arguing that most tying injuries were inherently offset. That is, a seller could obtain a higher price for one of the products only by a corresponding reduction in the price of the other product. As a result, he argued, buyers upon whom tying was imposed should not have a damages action.¹²⁵ This argument is a qualified embrace of the Chicago school rejection of the leverage theory insofar as overcharges are concerned: since there is a single maximizing monopoly price, a price increase in one tied-up product requires a compensating reduction in the other one.¹²⁶ Areeda also found no competitive harm from price discrimination ties.¹²⁷ Both of these were “extraction” arguments, however, aimed at the view that tying enabled the leveraging of higher prices. They did not qualify the traditional Harvard school acceptance of foreclosure of rivals or new entrants as an antitrust concern. In 1986, Areeda published a lecture categorically arguing in favor of a rule of reason for tying.¹²⁸ That position remains reflected in the *Antitrust Law* treatise, which generally argues for presumptive legality, but condemnation if market power and anticompetitive harm are proven under clearly articulated theories.¹²⁹ The treatise also continues to accept foreclosure as a relevant concern, and the caselaw generally does as well.¹³⁰

The Supreme Court has addressed tying in three substantive decisions since 1980. In dicta in the 1984 *Jefferson Parish Hospital District No. 2 v. Hyde* decision it suggested that precedent required adherence to a per se rule condemning it.¹³¹ Nevertheless, the Court conducted a lengthy rule-of-reason-like treatment and then approved the tie for lack of sufficient market share.¹³² In the hotly disputed *Eastman Kodak Co. v. Image Technical Services, Inc.* decision it found sufficient tying product market power based on a “lock in” theory, a query that would have been unnecessary if ties were legal per se.¹³³ Further, the action was brought by competitors, who argued that they were foreclosed from the market for maintaining Kodak photocopiers. Justice Scalia’s dissent objected to the power finding, and in the process observed that the Court was proceeding under a per se theory. Further, the

125 Phillip Areeda, Comment, *Antitrust Violations Without Damage Recoveries*, 89 HARV. L. REV. 1127, 1137 nn.50–51 (1976).

126 The argument was developed principally in Ward S. Bowman, Jr., *Tying Arrangements and the Leverage Problem*, 67 YALE L.J. 19, 21 (1957). However, Areeda did not cite Bowman.

127 Areeda, *supra* note 125, at 1137 nn.49–51.

128 See Phillip Areeda, *The Rule of Reason—A Catechism on Competition*, 55 ANTITRUST L.J. 571, 587 (1986).

129 See 9 AREEDA & HOVENKAMP, *supra* note 124, ¶ 1729 (briefly summarizing the theories).

130 *Id.* ¶¶ 1708–09.

131 *Jefferson Par. Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 9 (1984) (“It is far too late in the history of our antitrust jurisprudence to question the proposition that certain tying arrangements pose an unacceptable risk of stifling competition and therefore are unreasonable ‘per se.’”), *abrogated by* *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006).

132 See also *U.S. Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 620 (1977) (signaling change to a more serious market power requirement).

133 *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 U.S. 451 (1992).

majority expressly embraced a foreclosure theory, and Justice Scalia did not appear to reject it.¹³⁴ Finally, in *Illinois Tool Works Inc. v. Independent Ink, Inc.*, the Court held that tying power could not be inferred from a patent, but it did not overrule tying law's idiosyncratic per se rule that requires proof of tying product power and never suggested that all ties should be legal.¹³⁵ Foreclosure was not in prospect in *Illinois Tool Works* because the tied product, ordinary printing ink, was available from many sources. In its 2001 *United States v. Microsoft Corp.* decision, the D.C. Circuit assumed that tying arrangements generally would be governed by a per se rule if the market power requirements were met, but then it created a rule of reason exception for software operating system platform ties.¹³⁶

To summarize, the courts have not come close to reaching the Bork position that tying should be legal per se. They have begun chipping away at the per se rule, and its demise seems all but inevitable. But in that case tying arrangements will be placed under the rule of reason, with foreclosure surviving as a central concern. This is essentially the Harvard position.

While the Supreme Court has not addressed exclusive dealing in this time period, the lower courts have consistently adhered to the Harvard school formulation, which is that exclusive dealing contracts are competitively harmless most of the time but can sometimes cause competitive harm when they foreclose competitors unreasonably. They are thus addressed under the rule of reason's burden-shifting framework. Plaintiffs continue to win some important cases—all on foreclosure rationales—even in the twenty-first century.¹³⁷ In its 2018 decision in *Ohio v. American Express Co.*, which involved a vertical interbrand restraint, all nine Justices agreed that the rule of reason should apply.¹³⁸ However, the Court's analysis cannot be described as either Chicago school or Harvard school.¹³⁹

One important development is the increasing use of section 2 of the Sherman Act in exclusive dealing cases. Section 2 has a higher market power requirement but is less categorical about other requirements than section 3 of the Clayton Act and can reach conduct for which the "agreement" requirement has not been met.¹⁴⁰ This has contributed to a law of quasi-exclusive dealing, covering various discounting practices that do not meet the ortho-

134 *Id.* at 478, 482; *id.* at 486–87, 490 (Scalia, J., dissenting).

135 *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 43 n.4, 46 (2006).

136 *United States v. Microsoft Corp.*, 253 F.3d 34, 89–91 (D.C. Cir. 2001).

137 *E.g.*, *McWane, Inc. v. FTC*, 783 F.3d 814 (11th Cir. 2015); *United States v. Dentsply Int'l, Inc.*, 399 F.3d 181 (3d Cir. 2005). The court in *McWane* made clear that the rule of reason applied to exclusive dealing agreements, with its usual burden-shifting approach. *McWane*, 783 F.3d at 833; *accord Microsoft Corp.*, 253 F.3d at 70–71 (applying rule of reason burden shifting and condemning exclusive dealing).

138 *Ohio v. Am. Express Co.*, 138 S. Ct. 2274, 2284 (2018).

139 *Id.*; see Erik Hovenkamp, *Platform Antitrust*, 44 J. CORP. L. (forthcoming 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3219396.

140 *E.g.*, *Dentsply*, 399 F.3d at 184 (applying section 2 of the Sherman Act); see 3B AREEDA & HOVENKAMP, *supra* note 65, ¶ 768; 11 AREEDA & HOVENKAMP, *supra* note 124, ¶ 1800.

dox definition of an agreement not to deal with one's rivals but can still serve anticompetitive purposes.¹⁴¹

Other practices raise similar concerns. For example, Google, a company that competes in online travel agency (OTA) markets, requires other OTAs to provide proprietary information about things such as room availability or special discounts.¹⁴² This practice may operate as a form of quasi-exclusive dealing to the extent that it hinders rival OTA's ability to compete. Offsetting this, of course, is the fact that, while Google's share of search is high, it is only one of many general search engines, and competing OTAs such as Orbitz and Expedia operate their own successful specialty search engines that cover both air transport and lodging. So one important question is whether Google has the power to produce anticompetitive results when consumers have readily available alternatives and switching is virtually costless.¹⁴³

The *American Express* case mentioned above also involved an interbrand restraint.¹⁴⁴ The government used section 1 of the Sherman Act to challenge American Express's merchant "antisteering" rules. These forbid retailers who accept the American Express card, which is particularly expensive for merchants, from offering product-price discounts to customers for using less expensive cards. The antisteering rules served to insulate card users from American Express's higher merchant fees by making them indifferent to alternatives that may be less costly. Agreeing with the Second Circuit, the Supreme Court held that in a two-sided transaction market, the traditional rule defining markets in terms of reasonable interchangeability must be discarded. Rather, it held, in such a market, losses on one side (merchant acceptance fees) would be offset by gains on the other side (cardholder use). As a result, the market definition must look at both sides of the market and the plaintiff would have to show *net* harm.¹⁴⁵

What this curious approach to market definition prevented the Court from seeing is that the antisteering rule actually produced *losses* on both sides.¹⁴⁶ A cardholder prevented from switching by the antisteering rule would indeed be increasing usage on American Express's merchant side. But this happened only because the customer was denied the opportunity to employ its first choice of a card, and thus it was in fact worse off. The merchant was also worse off because it was denied the benefit of the bargain with the cardholder for use of a cheaper card. And, of course, competitors offering cheaper cards were also injured. The only offset was increased reve-

141 *E.g.*, *ZF Meritor, LLC v. Eaton Corp.*, 696 F.3d 254, 278 (3d Cir. 2012) (condemning above-cost discounting program, analogizing it to exclusive dealing). Other decisions are discussed in 11 AREEDA & HOVENKAMP, *supra* note 124, ¶ 1807.

142 *See Google-Hotel Travelopoly*, WALL ST. J. (Dec. 27, 2017), <https://www.wsj.com/articles/google-hotel-travelopoly-1514419414>.

143 Arguing for the possibility is Tim Wu. *See* Tim Wu, *Blind Spot: The Attention Economy and the Law*, 82 ANTITRUST L.J. (forthcoming 2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2941094/.

144 *See* *Ohio v. Am. Express Co.*, 138 S. Ct. 2274, 2290 (2018).

145 *Id.* at 2294–95.

146 The argument here is taken from Erik Hovenkamp, *supra* note 139, at 37.

nue to the American Express platform itself—not to either the merchant side or the cardholder side.¹⁴⁷ Further, this gain in a transaction on the American Express side was precisely offset by a loss of that transaction to a competing network such as Visa or MasterCard.

The correct way to assess the restraint would have been to define a market in which cardholder injury occurred in the proper way, including only substitutes. At that point the burden should shift to the defendant to prove any offsetting benefits on the other side of the market or elsewhere.¹⁴⁸ Markets are always properly limited to reasonably close substitutes and there is no reason to deviate from that principle in this case.¹⁴⁹ The two types of transactions that the Court grouped into the same market were actually complements in production.¹⁵⁰ In general, the price of complements in a market move in opposite directions. For example, as the price of gasoline increases, making driving costlier, people will consume fewer automobiles. This relationship is an important part of the market mechanism for attaining a competitive equilibrium. The antisteering rule prevented this from occurring, as customers received no incentive to switch to a less costly card. With the antisteering rule abolished, customers would stay with American Express's higher cost card only if they valued the perks they received from it by a greater amount than the discount the merchant offered them.

When used properly, the rule of reason is a safe spot for antitrust to be in when current theory is not as robust as it should be. It allows for litigation resources to be invested in the correct set of questions, which concerns power and anticompetitive effects. The Supreme Court's ill-conceived *per se* rule against ties developed at a time when very little was known about them, and the courts had a clearly exaggerated impression of potential harms.¹⁵¹ But the Bork conclusion that they should all be legal was equally premature. By the same token, the Court's ill-conceived misdefinition of the market in *American Express* was based on its failure to understand the fundamental economics of the situation it was addressing.

C. Vertical Mergers and Foreclosure

Bork's view of vertical mergers was largely dictated by his position on vertical contractual restraints. First, he would never condemn a purely vertical merger on foreclosure grounds—essentially the same position he took for tying and exclusive dealing. Rather, “[p]roperly drawn and applied horizon-

147 See *id.* at 37.

148 See *id.* at 38.

149 See 2A AREEDA & HOVENKAMP, *supra* note 65, ¶ 565.

150 Complements in use, such as gasoline and automobiles, are used together. By contrast, complements in production, such as beef and cowhide, are produced together. The Court's opinion correctly concluded that the two products were not complements in use, but failed to see that they were complements in production. See *Am. Express Co.*, 138 S. Ct. at 2286 n.8.

151 See 9 AREEDA & HOVENKAMP, *supra* note 124, ¶ 1720.

tal rules are all that we need.”¹⁵² He generally followed Ronald Coase’s argument that a vertical merger “is merely an instance of replacing a market transaction with administrative direction because the latter is believed to be a more efficient method of coordination.”¹⁵³ He briefly considered and rejected Areeda’s suggestion that a vertical merger might create a second-level monopoly, which would be more resistant to competitive entry and also less likely to innovate,¹⁵⁴ or that the merger might facilitate a price squeeze, injuring rival firms who are not vertically integrated.¹⁵⁵ Areeda did not exactly say that these practices should be unlawful, but only that “the law should [not] be indifferent to monopoly at the second level.”¹⁵⁶

Neither the Supreme Court nor any circuit has addressed a vertical merger case since 1979. In that year the Second Circuit declined to condemn a merger based on a theory that both Bork and Areeda rejected—namely, that a postmerger firm might favor its own subsidiary over rivals in times of short supply.¹⁵⁷ Vertical merger law in the enforcement agencies has hardly been robust, although they have obtained several consent decrees and some transactions were abandoned in the face of government scrutiny.¹⁵⁸ While the Horizontal Merger Guidelines have been continuously revised through 2010, the Vertical Merger Guidelines have not been touched since 1984. Even those Guidelines, however, were willing to condemn vertical mergers on theories that Bork rejected. One was a foreclosure theory Areeda proposed that the merger would raise entry barriers by requiring two-level entry.¹⁵⁹ The 1984 Guidelines also recognized a problem with mergers that involved the acquisition of a disruptive buyer in the downstream market that had been able to undermine collusion in the upstream market,¹⁶⁰ and also evasion of rate regulation.¹⁶¹

152 BORK, ANTITRUST PARADOX, *supra* note 10, at 245.

153 *Id.* at 227.

154 *Id.* at 239 (citing AREEDA, *supra* note 91, 675–76).

155 *Id.* at 243.

156 AREEDA, *supra* note 91, at 675.

157 See *Fruehauf Corp. v. FTC*, 603 F.2d 345, 354–55 (2d Cir. 1979) (rejecting argument that firm would discriminate in favor of its own subsidiaries in times of short supply); see also 4 AREEDA & TURNER, *supra* note 89, ¶ 1003 (also rejecting this argument). On permissible rationales for condemning vertical mergers, see Hovenkamp, *supra* note 112.

158 For an exhaustive summary through July 2018, see Steven C. Salop & Daniel P. Culley, Vertical Merger Enforcement Actions: 1994–July 2018 (Aug. 23, 2018) (unpublished appendix), <http://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=2541&context=facpub>. This document is an online appendix to Steven C. Salop & Daniel P. Culley, *Revising the US Vertical Merger Guidelines: Policy Issues and an Interim Guide for Practitioners*, 4 J. ANTITRUST ENFORCEMENT 1 (2015); see also Hoffman, *supra* note 75.

159 See U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, HORIZONTAL MERGER GUIDELINES § 4.21 (1984) [hereinafter 1984 Guidelines]; cf. BORK, ANTITRUST PARADOX, *supra* note 10, at 240–42.

160 1984 Guidelines, *supra* note 159, § 4.222.

161 *Id.* § 4.23.

Bork categorically rejected foreclosure theories for condemning vertical mergers.¹⁶² In the first edition of *Antitrust Law*, published in 1980, Areeda and Turner accepted it, although with severe qualifications.¹⁶³ Concerns analogous to foreclosure have reentered the picture, however.¹⁶⁴ At least part of the reason is technology changes, or in some cases changes in the regulatory environment, that make foreclosure an increasing concern. These are particularly apt when the property being transferred between the upstream and downstream firm is a nonrivalrous good capable of being used an indefinite number of times.¹⁶⁵ In traditional markets for hard goods, producers have a finite capacity which must be allocated, and they would understandably allocate them to their own subsidiaries rather than independent firms. For example, a truck wheel manufacturer that is acquired by a truck manufacturer has the capacity to make only a finite number of wheels.¹⁶⁶ If it transferred its full capacity of wheels to its own parent, then other truck manufacturers would be foreclosed from access to these. In the case of a market-dominant wheel company and high entry barriers, that might leave rivals without good alternatives. Nevertheless, it is hard to find a good economic rationale for forcing a firm to share its output with rivals when its own subsidiaries require all of it. Intrafirm transfers of goods are a primary reason that firms integrate vertically, taking advantage of situations where the costs of such transfer are less than the costs of using the market.

But suppose that the asset in question is *Wonder Woman*, a digitized Hollywood film that is capable of being reproduced an unlimited number of times. *Wonder Woman* is owned by Time Warner, whose recent acquisition by AT&T, an internet service provider, was unsuccessfully challenged by the government.¹⁶⁷ The concern is that vertically integrated AT&T, which also owns DirecTV, might now refuse to license *Wonder Woman* to rival programmers. Now the “capacity” argument no longer obtains: AT&T will never license so many performances of *Wonder Woman* through its own internet and cable subscribers that *Wonder Woman* is all used up. So if it denies rival cable or internet service companies access to *Wonder Woman*, there must be another reason.¹⁶⁸ At least some of these can involve foreclosure.

162 BORK, ANTITRUST PARADOX, *supra* note 10, at 231–37.

163 4 AREEDA & TURNER, ANTITRUST LAW, *supra* note 89, ¶ 1004e (accepting foreclosure theories “although the conditions necessary for such harm are stringent”).

164 See Steven C. Salop, *Invigorating Vertical Merger Enforcement*, 127 YALE L.J. 1962, 1963 (2018); Steven C. Salop, *The AT&T/Time Warner Merger: Judge Leon Garbled Professor Nash*, 6 J. ANTITRUST ENFORCEMENT (forthcoming 2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3247845.

165 See Hovenkamp, *supra*, note 112, at 15.

166 See *Fruehauf Corp. v. FTC*, 603 F.2d 345, 352–61 (2d Cir. 1979). The court found the foreclosure percentages at issue—less than six percent—were insufficient. *Id.*

167 See *United States v. AT&T Inc.*, 310 F. Supp. 3d 161, 253 (D.D.C. 2018). The court did not deny the government’s theories of harm but found them unsupported by the facts. *Id.*

168 See Complaint ¶¶ 5–6, *AT&T Inc.*, 310 F. Supp. 3d 161 (No. 17-cv-02511); see also Hovenkamp, *supra* note 112, at 15, 18–19.

A merger is usually challenged prior to its occurrence. As a result, there is no proof that competitive harm has occurred, but rather a fear that it might occur. Why would postmerger AT&T/Time Warner deny *Wonder Woman* to subscribers of rival internet broadband or cable providers? *Wonder Woman* has already been made, can be licensed at very low cost, and is likely to claim high royalties, making short run profits very high. The vertical acquisition might make refusal to license *Wonder Woman* to outsiders physically possible, but that does not necessarily make it a profitable strategy.

The fear would come from one of several things. First, AT&T might deny *Wonder Woman* or other assets to rival carriers in order to induce customers to switch to DirecTV or an AT&T cable subsidiary. Second, it might license *Wonder Woman* to competitors only at a higher price than it builds in for its own subscribers, and higher than the premerger price. Third, under-vertically integrated oligopoly firms might restrict their programs to their own subsidiaries, creating several vertically integrated silos and limiting the range of programs available to individual subscribers.

Ordinarily a firm can charge any price it pleases as far as the antitrust laws are concerned, and price discrimination of this kind is not unlawful. Nor does a firm ordinarily have a duty to share its products with rivals. But these are not the issues in a merger case, where the fear is that the merger will facilitate a higher price or lower output or product diversity than obtained prior to the merger. If that is likely, then the merger is unlawful under the Clayton Act's incipiency standard, which condemns mergers that realistically threaten to lessen competition.¹⁶⁹ Nevertheless, at least one of these harms must be substantially likely to occur. The risk should be assessed by employing objective tests designed to predict the postmerger firm's profit-maximizing course of conduct. In dismissing the complaint, however, the district court credited the testimony of employees of the defendant that they would not act so as to maximize the profits of the postmerger firm, but only of the program licensing division.¹⁷⁰ That in effect would require the firm to act irrationally. It would also return antitrust policy back to pre-*Copperweld* days when antitrust courts entertained the notion that a firm's separate subsidiaries or other divisions should be treated as distinct profit-maximizing entities for antitrust purposes.¹⁷¹

D. *Ancillary Horizontal Restraints and the Rule of Reason*

Richard Posner's brief mention of the rule of reason in his 1976 book was unilluminating and even disparaging, suggesting a belief that litigation under a rule of reason would be unwieldy.¹⁷² History may yet prove him

169 See Hovenkamp, *supra* note 112, at 1 & n.1.

170 *AT&T Inc.*, 310 F. Supp. 3d at 223.

171 *Copperweld Corp. v. Indep. Tube Corp.*, 467 U.S. 752, 758–59 (1984) (overruling previous decisions and holding that a parent firm and its subsidiaries are a single entity for antitrust purposes). For more information on *Copperweld*, see 7 PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* ¶¶ 1462–63 (4th ed. 2017).

172 POSNER, *ANTITRUST LAW*, *supra* note 87, at 213.

correct. Two years later, Bork's *The Antitrust Paradox* included a highly influential taxonomy of "naked" and "ancillary" restraints that Bork took from Circuit Judge Taft's *United States v. Addyston Pipe & Steel Co.* decision¹⁷³ as well as Bork's own previous writings.¹⁷⁴ He argued that a rule of reason requiring proof of power and anticompetitive effects was necessary if a restraint was determined to be reasonably ancillary to legitimate joint activity. He did not develop the modern conception of a prima facie case and subsequent shift in the burden of proof, which have become central features of modern rule of reason analysis. Three years later Areeda laid out some of the basic contours of the modern rule of reason in an essay for the Federal Judicial Center, discussing both the burden-shifting framework that we now use, as well as the relevance of less restrictive alternatives.¹⁷⁵

In a sense, the rule of reason was a joint enterprise of the Chicago and Harvard schools. Bork's scholarship developed the argument for the rule's domain by arguing for fewer applications of the per se rule. Subsequent Harvard school scholarship fashioned the rule of reason's modern, burden-shifting methodology of proof.

E. *Market Structure, Barriers to Entry, and Horizontal Merger Policy*

Beginning with the Cellar-Kefauver Amendments to the merger statute in 1950,¹⁷⁶ modern merger policy was born during the high point of "structuralism" in antitrust law.¹⁷⁷ One attribute of structuralism was the structure-conduct-performance (SCP) paradigm, largely developed by Harvard economists in the 1930s through the 1950s, under which structure determined conduct and conduct determined the extent of noncompetitive performance. Under the logic of the SCP paradigm, if *S* entails *C* and *C* entails *P*, then *C* drops out as a variable of interest. We can infer noncompetitive performance directly from structure.¹⁷⁸ Following this logic, the Supreme Court's *United States v. Philadelphia National Bank* merger decision held that when the

173 *United States v. Addyston Pipe & Steel Co.*, 85 F. 271 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899); see also BORK, *ANTITRUST PARADOX*, *supra* note 10, at 26–30.

174 Most importantly, see Robert H. Bork, *The Rule of Reason and the Per Se Concept: Price Fixing and Market Division* (pts. 1 & 2), 74 *YALE L.J.* 775 (1965), 75 *YALE L.J.* 373 (1966).

175 PHILLIP AREEDA, *THE "RULE OF REASON" IN ANTITRUST ANALYSIS* (1981). On the current state of the rule of reason for ancillary restraints, including the sequence of prima facie case, burden shifting to the defendant to show defenses, and the search for less restrictive alternatives, see 7 AREEDA & HOVENKAMP, *supra* note 171, ch. 15; and Hovenkamp, *Rule of Reason*, *supra* note 35.

176 Celler-Kefauver Act, ch. 1184, 64 Stat. 1125 (1950) (codified as amended at 15 U.S.C. §§ 18, 21 (2012)).

177 See HERBERT HOVENKAMP, *THE OPENING OF AMERICAN LAW: NEOCLASSICAL LEGAL THOUGHT, 1870–1970*, at 211–19 (2015).

178 *Id.* at 214; see EDWARD HASTINGS CHAMBERLIN, *THE THEORY OF MONOPOLISTIC COMPETITION* 46–51 (8th ed. 1962); Edward S. Mason, *Price and Production Policies of Large-Scale Enterprise*, 29 *AM. ECON. REV.* 61 (1939); see also JOE S. BAIN, *INDUSTRIAL ORGANIZATION* (1959). Bain received his Ph.D. at Harvard but spent most of his career at U.C. Berkeley.

structure of the market and the market shares of the merging firms attained a given minimum, the merger should be illegal.¹⁷⁹

Structuralism became the bullseye in Chicago school targeting of Harvard school industrial organization theory.¹⁸⁰ The attack on it was the topic of a legendary symposium at Airlie House, Virginia, in 1974, and produced an influential text on the subject.¹⁸¹ In its most extreme form, this antistructuralism virtually denied the existence of oligopoly or any other problematic form of market structure other than single-firm monopoly or express collusion. That is, unless they colluded, even the firms in a two or three firm market could be expected to behave competitively.

Bork took essentially that position. In *The Antitrust Paradox* he argued that, while mergers to monopoly should be unlawful because they eliminated all competition, mergers that left at least two competitors should be tolerated at least up to the point that the postmerger firm had sixty percent to seventy percent of the market.¹⁸² This conclusion was driven in part by Bork's serious doubts that oligopoly behavior existed except in economics textbooks.¹⁸³ As a result, the principal fear of merger policy was price fixing, and that was independently unlawful. However, "as a tactical concession to current oligopoly phobia," Bork thought that mergers should be permitted if they would leave three "significant" companies in the market.¹⁸⁴

Posner was more willing to accept oligopoly as a problem, but in light of their efficiency potential he also believed that the merger standards of the day were much too severe. He saw little need for antitrust intervention in cases where the four largest firms made up less than sixty percent of the market.¹⁸⁵ He also believed that inferences of harm could not be drawn from market shares alone, but depended on other factors showing the propensity of the market toward collusion.¹⁸⁶

Areeda and Turner's original discussion, in 1980, of horizontal mergers was quite far from the Chicago position, largely accepting the then-dominant literature on oligopoly pricing. They identified as "presumptively unlawful" any merger where the aggregate market share of the merging firms exceeded

179 *United States v. Phila. Nat'l Bank*, 374 U.S. 321 (1963).

180 See Herbert J. Hovenkamp, *Introduction to the Neal Report and the Crisis in Antitrust*, 5 COMPETITION POL'Y INT'L, Spring 2009, at 217, <https://www.competitionpolicyinternational.com/assets/0d358061e11f2708ad9d62634c6c40ad/Hovenkamp.pdf> (providing a subsequent history through the 1970s); see also G.C. Archibald, *Chamberlin Versus Chicago*, 29 REV. ECON. STUD. 2 (1961).

181 INDUSTRIAL CONCENTRATION: THE NEW LEARNING (Harvey J. Goldschmid et al. eds., 1974). But see MARK J. GREEN ET AL., THE CLOSED ENTERPRISE SYSTEM: RALPH NADER'S STUDY GROUP REPORT ON ANTITRUST ENFORCEMENT (1972) (attacking antitrust enforcement for not pursuing industrial concentration).

182 BORK, ANTITRUST PARADOX, *supra* note 10, at 221.

183 *Id.*

184 *Id.* at 221–22.

185 POSNER, ANTITRUST LAW, *supra* note 87, at 112.

186 *Id.* at 111–12.

ten percent, unless the acquired firm was very small.¹⁸⁷ Areeda and Turner then qualified these observations by stating that, when efficiencies are taken into account, a threshold in the range of thirteen percent or fourteen percent might be more sensible.¹⁸⁸ These standards were significantly more tolerant than the then-existing caselaw reflected in such decisions as *Brown Shoe Co. v. United States*¹⁸⁹ and *United States v. Von's Grocery Co.*,¹⁹⁰ but significantly less tolerant than Bork's proposal, and somewhat closer to Posner's. Subsequent caselaw softened, but never came close to eliminating, the structural presumption. Rather, structure became a central factor among many that the courts must consider when evaluating a merger.¹⁹¹ The views of Posner, Areeda, and Turner are more or less consistent with those adopted in the Horizontal Merger Guidelines in 1982 and subsequent revisions.¹⁹²

In subsequent years, merger standards were more fully articulated and periodically revised in successive editions of the Merger Guidelines. While the Supreme Court largely abandoned the field of mergers, lower court decisions have tended to follow the Guidelines. Those standards became more tolerant of mergers than Areeda and Turner originally proposed.¹⁹³ Neither the Guidelines nor the caselaw has ever come close to Bork's position that structure is unimportant until it reaches monopoly.¹⁹⁴ Further, today a growing consensus believes that merger law has become excessively tolerant, permitting too many mergers that harm consumer welfare by increasing prices.¹⁹⁵ This scholarship reflects a consensus that concentration does count, although not in the absolute way that the proponents of the SCP paradigm once imagined. Today market structure forms the principal content of a *prima facie* case against a horizontal merger, which can then be rebutted by various types of nonstructural evidence.¹⁹⁶ The dominant question is

187 4 AREEDA & TURNER, *supra* note 89, ¶ 915.

188 *Id.*

189 370 U.S. 294 (1962).

190 384 U.S. 270 (1966).

191 See Herbert Hovenkamp & Carl Shapiro, *Horizontal Mergers, Market Structure, and Burdens of Proof*, 127 YALE L.J. 1996, 2008–17 (2018).

192 See HORIZONTAL MERGER GUIDELINES, *supra* note 49 (providing the current version).

193 Subsequent editions of *Antitrust Law* reflected the changes. The current version is 4 AREEDA & HOVENKAMP, *supra* note 111, ¶ 932.

194 The decision that has come closest is *United States v. Baker Hughes Inc.*, 908 F.2d 981, 982–85 (D.C. Cir. 1990), which disparaged the use of statistical evidence of market concentration. For a critique, see Hovenkamp & Shapiro, *supra* note 191. One important qualifier is that overall market structure is unimportant in unilateral effects cases, which consider elimination of competition between closely competing companies in a product differentiated market. On unilateral effects, see 4 AREEDA & HOVENKAMP, *supra* note 111, ¶ 914.

195 See JOHN KWOKA, *MERGERS, MERGER CONTROL, AND REMEDIES* 9–37 (2015); Herbert Hovenkamp, *Appraising Merger Efficiencies*, 24 GEO. MASON L. REV. 703, 705 (2017) (summarizing argument and studies).

196 On the current framework, see Hovenkamp & Shapiro, *supra* note 191, at 2010–11. On the types of nonstructural evidence that is relevant, see 4 AREEDA & HOVENKAMP, *supra* note 111, ¶¶ 940–55.

whether the merger is likely to raise price or reduce output in some relevant market. Both the changing standards and the subsequent evaluation indicates the extent to which antitrust merger analysis closely tracks prevailing theory and economic factfinding. This evidence continues to find strong and worrisome correlations between market structure and price-cost margins.¹⁹⁷

The Harvard school, and with somewhat more quibbling, the Chicago school except for Bork, both acknowledged that analysis of entry barriers had a role to play in merger enforcement. They agreed that if entry was easy and effective, mergers would be competitively harmless. They disagreed about how entry barriers should be defined and measured. The Harvard school approach was reflected historically in the writings of Joe S. Bain, who defined entry barriers as some factor that limited market entry even as firms in the market earned returns above the competitive level.¹⁹⁸ By contrast, the Chicago school generally followed the approach proposed by Chicago economist George J. Stigler that an entry barrier is some cost that “must be borne by a firm which seeks to enter an industry but is not borne by firms already in the industry.”¹⁹⁹ The differences can be substantial. For example, substantial economies of scale can be an entry barrier under the Harvard approach but not the Chicago approach.²⁰⁰

Bork’s view was more extreme than either approach. He doubted that barriers to entry existed at all, unless we define the setting of a competitive price or a government-imposed entry restriction as an entry barrier. For Bork, nearly all of the things that had been characterized as entry barriers were in fact nothing more than efficiencies that incumbent firms had obtained but that prospective entrants had not been able to match.²⁰¹ Posner provided less elaboration, but his views seem closest to Stigler’s.²⁰² One important consequence of Bork’s denial of barriers to entry is that he rejected any theory of antitrust harm based on foreclosure, or the idea that a firm could exclude others from the market by means of an anticompetitive practice. For Bork, the only thing that could exclude rivals was the charging of a competitive price or a monopoly license from the government.

Today it is clear that the Harvard school has won this battle in both the caselaw and enforcement policy. Although the Federal Trade Commission has on rare occasion flirted with the Stigler definition of entry barriers,²⁰³ the Harvard definition predominates in the caselaw.²⁰⁴ The Merger Guidelines effectively adopt the Harvard definition by querying whether entry will

197 Hovenkamp & Shapiro, *supra* note 191, at 2001–06.

198 JOE S. BAIN, BARRIERS TO NEW COMPETITION 4–5 (1956).

199 GEORGE J. STIGLER, THE ORGANIZATION OF INDUSTRY 67 (1968).

200 See, e.g., BORK, ANTITRUST PARADOX, *supra* note 10, at 311 (treating scale economies as entry barriers punishes efficiencies and thereby undermines antitrust policy).

201 *Id.* at 310–29.

202 See POSNER, ANTITRUST LAW, *supra* note 87, at 92–93.

203 See, e.g., Eichlin Mfg. Co., 105 F.T.C. 410, 483–85, 487–88 (1985) (higher cost of capital for entrants than for incumbents was not an “entry barrier” because the latter had faced similar risks when they entered).

204 See 2B AREEDA & HOVENKAMP, *supra* note 111, ¶ 420.

be likely to occur in response to prices at or above the competitive level.²⁰⁵ As under the Bainian definition, the Guidelines also query whether entry can be expected to be timely, and sufficient to hold prices to premerger levels. This analysis of entry in terms of timeliness, likelihood, and sufficiency is strictly in line with the Bainian approach, whose fundamental concern is whether entry barriers will prolong supracompetitive prices.²⁰⁶

The Harvard definition is also the one most consistent with the consumer welfare principle, for it is best able to identify situations in which high prices are likely to be durable. We really do not care whether incumbent firms have surmounted some risk that enables them to charge monopoly prices without concerns about entry. We just want to know whether that position exists. This is simply another way of saying that entry barriers themselves are not unlawful, but neither do they suffice to make anticompetitive conduct lawful. The Stigler/Bork view reflected in the Chicago school theory is much too moralistic. It assumes that a firm that has overcome certain entry risks is somehow “entitled” to require future entrants to surmount the same risks, even as it is engaging in anticompetitive behavior, or that it has a free pass to merge, even if the merger promises higher prices. In contrast, the Harvard approach asks the much more empirical policy question whether high prices are likely to persist, without making value judgments about the sequence of events that led to the current situation.²⁰⁷

F. Antitrust Federalism: The “State Action” Doctrine

Antitrust federalism is one area in which the economic values embodied in the antitrust laws and the consumer welfare principle give way to another concern: the Constitution recognizes states as well as the federal government as sovereigns, although limited to their own spheres and under the umbrella of the Supremacy Clause. This presents a hard question for true believers in antitrust: How should they react when a state does something that is clearly anticompetitive and harms consumers, such as authorizing a cartel of dentists to restrict the teeth whitening business to licensed practitioners?²⁰⁸ Here, the Chicago school adhered closely to a welfare goal, while at least some conservatives or libertarians remain more sympathetic to concerns about federalism, even at the cost of economic efficiency. As an example of the latter, Justice Alito’s dissent in *North Carolina State Board of Dental Examiners v. FTC* is a strong protest that federal antitrust policy should keep its hands off, even if anticompetitive state policy fails to merit “a good-government seal of

205 HORIZONTAL MERGER GUIDELINES, *supra* note 49, § 9.

206 *Id.* § 9.1 (timeliness); *id.* § 9.2 (likelihood); *id.* § 9.3 (sufficiency); *see* United States v. Waste Mgmt., Inc., 743 F.2d 976, 982 (2d Cir. 1984) (applying then existing Guidelines standards to conclude that entry was so easy that a challenged merger was unlikely to be anticompetitive, even though postmerger market share was close to fifty percent).

207 *See* Richard L. Schmalensee, *Sunk Costs and Antitrust Barriers to Entry*, 94 AM. ECON. REV. 471 (2004) (defending Bainian conception of entry barriers).

208 N.C. State Bd. of Dental Exam’rs v. FTC, 135 S. Ct. 1101, 1108 (2015).

approval.”²⁰⁹ The issue in that case was the “state action” doctrine, which can immunize a state-authorized cartel from antitrust law. The question of how broadly or narrowly it should be applied has repeatedly divided the Court.²¹⁰

While Justice Alito’s position may be that of a committed federalist, it is not reflected in the Chicago school literature. For example, Judge Posner applauded the Federal Trade Commission’s repeated attempts to limit or perhaps eliminate the state action doctrine, which he saw as providing unwarranted protection for professional cartels.²¹¹ In *The Antitrust Paradox*, Bork barely acknowledged the state action doctrine.²¹² In a single sentence he reiterated the position he had taken as Solicitor General in a government amicus brief in *Cantor v. Detroit Edison Co.*²¹³ That position was that an anticompetitive state rule was immune from federal antitrust scrutiny only if the state actually compelled the private party to act. If the party had discretion, then immunity would not apply. The Supreme Court has never categorically embraced that position.²¹⁴

By contrast, Areeda and Turner were more sensitive to federalism issues. They argued for a two-prong test. First, there should be no state action immunity “without adequate public supervision” of private conduct.²¹⁵ Second, state action immunity required “authorized state action clearly intended to displace antitrust law.”²¹⁶ They also rejected the compulsion requirement. In *California Retail Liquor Dealers Ass’n v. Midcal Aluminum, Inc.*, two years later, the Supreme Court adopted the Areeda-Turner position virtually verba-

209 *Id.* at 1117 (Alito, J., dissenting).

210 See 1A PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* ¶¶ 221–27 (4th ed. 2014) (discussing the cases).

211 Richard A. Posner, *The Federal Trade Commission: A Retrospective*, 72 *ANTITRUST L.J.* 761, 770 (2005); see also Frank H. Easterbrook, *Foreword: The Court and the Economic System*, 98 *HARV. L. REV.* 4, 53–54 (1984) (critical of expansive antitrust “state action” doctrine for giving shelter to private cartels). On the FTC’s repeated unsuccessful attempts to narrow “state action” immunity, see 1A AREEDA & HOVENKAMP, *supra* note 210, ¶ 231.

212 See BORK, *ANTITRUST PARADOX*, *supra* note 10, at 350 (unnumbered note).

213 428 U.S. 579 (1976) (plurality); see Brief for the United States as Amicus Curiae Supporting Petitioner at *4, *Cantor*, 428 U.S. 579 (No. 75-122), 1975 WL 173812 (Robert H. Bork, Solicitor General; Thomas E. Kauper, Assistant Attorney General and head of the antitrust division).

214 In *Cantor*, a deeply divided Court with no majority spoke somewhat favorably about a compulsion requirement, finding that it was not met in a regulatory regime in which a utility itself proposed a tariff requirement which, once adopted, became compulsory for that firm. *Cantor*, 428 U.S. at 592–93. Two years later another divided Court rejected the requirement in *City of Lafayette v. La. Power & Light Co.*, 435 U.S. 389, 400, 408 (1978) (plurality). Subsequent decisions have consistently made clear that compulsion is not required. See 1A AREEDA & HOVENKAMP, *supra* note 210, ¶ 224c.

215 1 AREEDA & TURNER, *supra* note 89, ¶ 213.

216 *Id.* ¶ 214.

tim.²¹⁷ This two-pronged *Midcal* approach has dominated the state action caselaw ever since.

The *Midcal* position is a significant concession to federalism, although it falls short of *carte blanche*. Under it a state may regulate as anticompetitively as it chooses, provided that it clearly articulates what it is doing and actively supervises any private conduct. What it cannot do, however, is simply surrender the power to exclude or collude to unsupervised private actors. When the state does that, condemnation is appropriate, as it was in *North Carolina Dental*.

G. Private Enforcement

Collusion in an upstream market, such as for a raw material, often leads to price increases that are passed down the distribution chain all the way to consumers. One Chicago school contribution to private enforcement doctrine was *Illinois Brick Co. v. Illinois*, which limits damages actions to direct purchasers. The Chicago school analysis was based on an assumption that the overcharge was the correct measure of damages to each successive purchaser as a cartelized good passes down the distribution chain. While the formulas for computing such pass on are conventional, applying them in litigation would be heroic.²¹⁸ Further, the argument went, a direct purchaser limitation might actually promote enforcement by giving one entity the full damages pool, rather than splitting the claim down the line.²¹⁹ This would result in more efficient levels of deterrence.

By contrast, Areeda and Turner found the *Illinois Brick* rule to be “inconsistent with the statutory scheme,” in that it awarded the damages to the wrong party.²²⁰ This was true because intermediaries typically pass on more of the overcharge than they absorb, leaving the brunt with end users.²²¹ Further, they argued, the true measure of the intermediary’s damage was lost profits, not the overcharge. So lost profits should be awarded to intermediaries and overcharge damages to end users, whether or not they were direct purchasers.²²² In that case, there would be neither apportioning nor duplicative recovery.

217 Cal. Retail Liquor Dealers Ass’n. v. Midcal Aluminum, Inc., 445 U.S. 97, 105 (1980) (“These decisions establish two standards for antitrust immunity under *Parker v. Brown*. First, the challenged restraint must be ‘one clearly articulated and affirmatively expressed as state policy’; second, the policy must be ‘actively supervised’ by the State itself.” (quoting *City of Lafayette*, 435 U.S. at 410)).

218 See William M. Landes & Richard A. Posner, *Should Indirect Purchasers Have Standing to Sue Under the Antitrust Laws? An Economic Analysis of the Rule of Illinois Brick*, 46 U. CHI. L. REV. 602, 618–20 (1979) (noting “severe difficulties of proof”).

219 Ill. Brick Co. v. Illinois, 431 U.S. 720, 746–47 (1977).

220 2 AREEDA & TURNER, *supra* note 89, ¶ 337e.

221 *Id.*

222 *Id.*; see also Herbert Hovenkamp, Commentary, *The Indirect-Purchaser Rule and Cost-Plus Sales*, 103 HARV. L. REV. 1717, 1726–31 (1990). This is also the position of the *Antitrust Law* treatise today. See 2A AREEDA & HOVENKAMP, *supra* note 65, ¶ 346k.

The Supreme Court's announcement of the indirect purchaser rule produced fierce resistance among the states, and roughly half of them have developed *Illinois Brick* "repealers," by either legislation or judicial decision. The result has been a nightmarish system in which federal law gives direct purchasers the entire overcharge, while the law of many states provides for apportionment of passed on damages down the distribution chain.²²³

More problematically, the *Illinois Brick* rule was based on a misconception that damages experts must measure passed-on damages by computing elasticities of demand and supply as goods are passed down the distribution stream. In many if not most cases, however, it is quite possible to assess passed-on damages without these computations. For example, the very commonly used "yardstick" and "before and after" methodologies for computing damages use a different set of observations.

To illustrate, suppose we observe that widgets are selling at wholesale for ten dollars in the cartel market, but six dollars in a similar "yardstick" market thought to be competitive. Further we observe that wholesalers in the cartel market are assessing a three-dollar markup, while those in the yardstick market are assessing a four-dollar markup. That is consistent with the general view that intermediaries pass on a portion of the markup, while also absorbing a portion. End users end up paying thirteen dollars in the cartel market and ten dollars in the yardstick market. In that case the overcharge damages of end users in the cartel market is three dollars per unit. The wholesalers are also injured. Their injury is not based on the overcharge, however, but on lost profits. They are injured by one dollar per unit sold, because their markup on each unit is one dollar less than the yardstick markup. They are also injured by the cartel output reduction which reduces their volume. The before and after method takes the same approach except that it examines the same market prior to the formation of the cartel or subsequent to its dissolution, or both.²²⁴ To be sure, the real world provides difficulties that complicate the measure of damages, but the impact on indirect purchasers is no more unmanageable than most of these. In light of the state-federal mess that *Illinois Brick* has produced, it is time for that rule to be reconsidered.²²⁵

The most important antitrust development in private enforcement in the late 1970s was the "antitrust injury" doctrine, which aligned private entitlement to sue more closely with the goals of the antitrust laws. It was substantially the creation of Areeda, who used the then-pending *Brunswick Corp.*

223 See HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY § 16.6d, at 839–40 (5th ed. 2016).

224 See Andrew I. Gavil, *Thinking Outside the Illinois Brick Box: A Proposal for Reform*, 76 ANTITRUST L.J. 167, 181 (2009).

225 At this writing, the Supreme Court has granted certiorari in an indirect purchaser case concerned mainly with identification of the direct purchaser in a complex distribution chain. It is unlikely to reconsider the rule itself. *Pepper v. Apple, Inc.* (*In re Apple iPhone Antitrust Litig.*), 846 F.3d 313 (9th Cir. 2017), *cert. granted*, 138 S. Ct. 2647 (2018). On complexities in the distribution chain that can affect indirect purchaser lawsuits, see 2A AREEDA & HOVENKAMP, *supra* note 65, ¶ 346j.

v. Pueblo Bowl-O-Mat, Inc. case as an example of an antitrust violation for which damages should not be recovered.²²⁶ *Brunswick* involved a vertical merger. Defendant Brunswick was a major producer of bowling equipment, which set up turnkey bowling alleys, providing them with the equipment they needed to create a functioning business. It also had a program of acquiring foundering alleys who were unable to pay their bills. The City of Pueblo, Colorado, had two major bowling alleys. One was the plaintiff and the other was a struggling alley heavily indebted to Brunswick. Brunswick then acquired the failing alley and placed it on a firm financial footing. The plaintiff argued that this acquisition was an unlawful merger. Further, absent the merger the rival alley would have gone out of business, leaving the plaintiff as the dominant firm. Given the acquisition, however, the plaintiff was forced to compete with the newly rehabilitated alley.

The plaintiff's theory of action essentially turned antitrust policy on its head. It was clearly injured in fact by the merger, but it wanted to use antitrust law to protect itself from competition. The merger "harm" of which it was complaining was the rehabilitation of a rival that preserved competition in the plaintiff's community. Writing for the Court, liberal Justice Thurgood Marshall developed the "antitrust injury" doctrine, requiring that private antitrust claims be reasonably related to the reason we have antitrust laws.²²⁷ Even assuming that the vertical merger in question was unlawful, the plaintiff was injured by increased rather than lessened competition.

The antitrust injury doctrine is one of the most frequently used doctrines today to limit recoveries by antitrust plaintiffs who are seeking to use the antitrust laws for anticompetitive purposes, or else for purposes that have nothing to do with competition. More than 1600 federal antitrust cases have cited it,²²⁸ and it governs both damages actions and equity suits.²²⁹ Importantly, it is generally not a doctrine that relies on proven facts, but rather on the plaintiff's theory of harm. As a result, cases can be addressed on antitrust injury grounds on motions to dismiss by simply assessing the plaintiff's theory of injury.

III. DIAGNOSING ANTITRUST'S SHORTCOMINGS

Is antitrust living up to expectations? Answering that question requires that we identify reasonable goals. If antitrust's agenda is limited to practices that threaten low prices, increased output and product or service quality, then antitrust has a fairly clear path. One should not understate the difficul-

226 *Areeda*, *supra* note 125, at 1132 (discussing *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477 (1977)).

227 *Brunswick*, 429 U.S. at 488–89.

228 According to a Westlaw search conducted on Jan. 5, 2018, 1676 federal court decisions have cited *Brunswick* and mentioned "antitrust injury." On the "antitrust injury" doctrine as a limitation on antitrust standing, see 2A *AREEDA & HOVENKAMP*, *supra* note 65, ¶ 337.

229 See *Cargill, Inc. v. Monfort of Colo., Inc.*, 479 U.S. 104 (1986) (extending antitrust injury doctrine to lawsuits seeking an injunction).

ties, for antitrust under the consumer welfare principle requires rigorous fact finding and economic analysis in order to identify competitively harmful practices.

The general welfare approach on the right and more populist approaches on the left have important characteristics in common. Both denigrate the importance of high output and low prices. They are also harder to apply in a coherent way, because they require tradeoffs that are often difficult to articulate or quantify. Populism in particular requires antitrust policy to be involved in questions about wealth distribution and wages, small business welfare, or limiting of political as opposed to purely economic power. Populism's real bite occurs when an antitrust rule leads to reduced output and higher prices in order to accomplish one of these goals. Further, not only do these various goals trade against lower prices, they can trade against each other as well.²³⁰

The real problem of a general welfare test lies in its untested assumptions about competitive harm and efficiency. Bork simply assumed that productive efficiencies, including efficiencies in distribution, explained virtually every practice other than horizontal price fixing.²³¹ He also believed, however, that efficiencies were not susceptible of individual proof. Rather they must simply be assumed.²³² That pair of assumptions has led to an antitrust policy that is tolerant of a great deal of market power without any serious evidence that efficiencies justify it. Indeed, when legal regimes such as merger law require serious proof of efficiencies in order to offset a prima facie case of competitive harm, firms are rarely able to provide it. This is true even though they themselves were responsible for implementing the claimed efficiencies in question, and thus are in the best position to explain and justify them.²³³ In any event, even if efficiencies do explain many practices, the benefits are not getting passed on to consumers.

A. *The Need for Coherent and More Administrable Goals*

Notwithstanding difficulties in its application, antitrust under the consumer welfare principle can be designed so as to maximize predictability and minimize interest group conflict. The goal of the antitrust laws should be to enable markets to produce the highest output of the highest quality goods and services consistent with competition. Along with this will come lower prices.

That goal provides a metric, which is manageable in theory. In fact, the only other coherent and measurable antitrust goal that has been articulated is general welfare, which is the total welfare experienced by everyone affected by a situation, including producers as well as consumers. One enormous

230 See *infra* notes 243–44 and accompanying text.

231 See Hovenkamp, *Antitrust's Consumer Welfare Principle*, *supra* note 1, (manuscript at 2).

232 *Id.* (manuscript at 11).

233 See Hovenkamp, *Appraising Merger Efficiencies*, *supra* note 35, 724–26.

problem of general welfare theories is that they are tolerant of unacceptably large amounts of market power and high prices.²³⁴ Another problem is that we lack the econometric tools to apply them in litigation in any but the clearest cases.²³⁵

Depending on assumptions, the theoretical difference between consumer welfare tests and tests that take producer welfare into account can be large. In litigation, however, the choice between the tests rarely matters.²³⁶ Assuming we reject Bork's position that efficiencies should simply be presumed without proof,²³⁷ the difference between consumer welfare and general welfare has bite in one situation: namely, where a practice is actually proven to reduce output and increases price, thus injuring consumers, but the gains that accrue to producers or others are determined to be larger than the losses experienced by consumers. Those cases require measurement of a welfare tradeoff. This means, first, that consumer losses must be quantified. We need to know the extent to which a practice raises price and reduces output, and thus the cost of inefficient consumer substitutions. This requires information not only about the size of an output reduction and price increase (or quality loss), but also about the shape of the demand curve in the affected range. Having measured this, we would also have to measure the gains experienced by producers and others. In the simplest case involving an efficiency-created cost reduction but no product change, we would need to know the amount of the reduction and the per unit cost savings. If the savings were in increased quality, we would have to be able to quantify that, and quality-adjusted output is tricky to measure. Once measured, these consumer losses and producer gains would have to be netted against each other. Importantly, any claimed efficiencies in such cases would be accruing at lower output levels than obtained prior to the practice. Economies of scale, the most common efficiency, generally accrues at higher outputs, not lower ones.²³⁸ If output is as high or higher under the challenged practice consumers are not injured at all and there will not be a welfare tradeoff.²³⁹

By contrast, assessing a particular antitrust problem under a consumer welfare test requires no more than an ordinal estimate of the direction of market output, whether up or down.²⁴⁰ We do not need to know how much market output or quality changes, but only that it does and in which direc-

234 See Hovenkamp, *Antitrust's Consumer Welfare Principle*, *supra* note 1, (manuscript at 3–8).

235 See Herbert Hovenkamp, *Progressive Antitrust*, 2018 U. ILL. L. REV. 71, 92.

236 See the Williamson “tradeoff” model and the accompanying figure in Oliver E. Williamson, *Economies as an Antitrust Defense: The Welfare Tradeoffs*, 58 AM. ECON. REV. 18, 21 (1968), *reprinted in* BORK, PARADOX, *supra* note 10, at 107. On the immateriality of the test to actual litigation outcomes, see Hovenkamp, *supra* note 235.

237 See *supra* notes 34–38 and accompanying text.

238 See Hovenkamp, *Appraising Merger Efficiencies*, *supra* note 35, at 734–35.

239 *Id.*

240 One must distinguish market output from firm output. For example, in an exclusion case the *defendant's* output may go up to the extent that it is anticompetitively capturing sales from others. Overall market output, however, will go down.

tion.²⁴¹ There are no tradeoffs to be made. Focusing on output is usually better than focusing on price, particularly in cases involving monopsony. When monopsony power is being exercised the relevant purchasing prices go down, but output goes down as well.²⁴²

Sometimes an assessment of market power can provide a simplifying screen. In all cases where output effects are not intuitively obvious the market power requirement can serve to screen out harmless cases. For example, if a few insignificant firms that lack any market power form a venture that causes them to lose sales, the venture will be unprofitable but consumers will not be harmed. The venturers' output will decline, but not that of the market as a whole. Antitrust harm requires that an actor with market power can profitably reduce the output of the market as a whole. In such a case, a market power inquiry can be a simpler way of getting to an answer than direct measurement under any welfare test, including consumer welfare.

In sharp contrast, the broader goals identified by movement antitrust, including control of political power and wealth equality, job provision and wages, and protection of small business, are much more difficult to assess. They often operate at cross purposes. For example, a policy of increasing worker compensation is likely to harm small business more than larger ones. Large firms historically pay higher wages and salaries than smaller firms, although the difference is shrinking.²⁴³ For example, Amazon, a frequent target of movement antitrust, pays higher wages for the same jobs than its competitors.²⁴⁴ Breaking up large firms may reduce rather than increase employment, and may force wages lower. Likewise, a policy of protecting small business is likely to result in higher product prices, which in turn will lead to lower output and, a fortiori, fewer jobs. Most importantly is metrics: one cannot simply send federal judges out with a hodgepodge of conflicting goals and tell them to make some antitrust policy.

The consumer welfare principle speaks to some of these goals, at least indirectly.²⁴⁵ For example, although wealth equality and job creation are not separately articulated goals of antitrust under the consumer welfare principle, competitive markets are very likely conducive to more appealing distribu-

241 Or in an attempt case, that there is a dangerous probability that if the conduct runs its course market output will go down.

242 See *infra* Section III.C.

243 See, e.g., Charles Brown & James Medoff, *The Employer Size-Wage Effect*, 97 J. POL. ECON. 1027, 1027 (1989); Thierry Lallemand et al., *Why Do Large Firms Pay Higher Wages? Evidence From Matched Worker-Firm Data*, 26 INT'L. J. MANPOWER 705, 705 (2005).

244 As a result, Amazon is less impacted by increases in minimum wages. See Jeremy Bowman, *As Minimum Wages Go Up, Amazon.com Looks Like the Bigger Winner*, MOTLEY FOOL (Apr. 8, 2016), <https://www.fool.com/investing/general/2016/04/08/as-minimum-wages-go-up-amazoncom-looks-like-the-bi.aspx>.

245 See Jonathan B. Baker & Steven C. Salop, *Antitrust, Competition Policy, and Inequality*, 104 GEO. L.J. ONLINE 1 (2015) (discussing, inter alia, the relationship between market power and inequality and offering several proposals for using the antitrust laws to address inequality issues).

tions of wealth than monopolized ones.²⁴⁶ To be sure, even a highly competitive economy may experience uneven distribution of wealth, particularly when we take innovation into account.

Further, to the extent antitrust under the consumer welfare principle seeks to maximize output, it should also maximize employment, depending on the extent of productive efficiencies. In addition, as noted below, antitrust properly has a place in controlling restraints on competition in labor markets, and facilitating competitive labor markets may go a long way toward combatting wage suppression.²⁴⁷

An antitrust goal of pursuing wealth distribution independently of output maximization would suffer the same fate as so many populist antitrust goals. There is no metric that can be applied to it. Should plaintiffs who are poorer than defendants always win? If not, how do we choose? How would one go about identifying a practice that produces higher output and lower prices but yet should be condemned because it produces a less appealing distribution of wealth? The same thing is true of employment goals. In general, pursuing higher output can be trusted to yield higher employment. But another way to keep employment up is to reduce productive efficiency. So should there be some set of practices that yield higher product output and lower prices, but that should be condemned because they also produce production efficiencies that reduce the number of jobs? If that is our starting principle, how far should it be pursued?

B. *The Market Power Problem*

As measured by price-cost margins, market power in the economy is rising.²⁴⁸ The increase began to occur in the early 1980s, at about the same time as the Reagan-era antitrust revolution.²⁴⁹ It is also worth noting that two of the principal targets of movement antitrust today—Google and Amazon—are not significant contributors to this phenomenon. Google’s most common price to consumers is zero, and Amazon’s margins are among the lowest in all retailing. To be sure, either company might be engaging in anticompetitive practices. Their contracts with advertisers or suppliers might be unreasonably exclusionary, or they might use most-favored-nation or other loyalty-inducing long-term contracts in anticompetitive ways. In addition, we might want to place a price on the information that consumers pro-

246 See, e.g., Sean Ennis et al., *Inequality: A Hidden Cost of Market Power* (2017) (unpublished manuscript), <http://www.oecd.org/daf/competition/Inequality-hidden-cost-market-power-2017.pdf>. Even some of those in the neo-Brandeis movement agree. See Lina Khan & Sandeep Vaheesan, *Market Power and Inequality: The Antitrust Counterrevolution and Its Discontents*, 11 HARV. L. & POL’Y REV. 235, 238–45 (2017).

247 See *infra* Section III.D.

248 See Jan De Loecker & Jan Eeckhout, *The Rise of Market Power and the Macroeconomic Implications* (Nat’l Bureau of Econ. Research, Working Paper No. 23687, 2017), <http://www.nber.org/papers/w23687>.

249 See *id.* at 16 (noting profit rate relative to GDP grew fourfold during the period 1980–2014).

vide when they use these platforms. Finally, they might be making problematic acquisitions of smaller firms. But one need not abandon well-developed antitrust tools for finding power and anticompetitive effects in order to evaluate these practices.

Changes in antitrust policy may be a factor in this rise of price-cost margins—or not. Other things are at work here. First, during this same period the economy became far more digitized and information based. The result is significant changes in cost structure, with a much higher percentage of American investment being in fixed-cost assets. This would serve to increase price-cost margins. The authors purport to account for this change. In any event, to the extent the rise in margins results from an increase in fixed costs, it is not an antitrust problem.

Second, as a result of decades of anti-union politics and legislation, wages have been suppressed in favor of company profits. That is to say, even as profits have risen dramatically, real wages have remained constant at best and labor participation represents a steeply declining section of industry returns, even if adjusted by changes in technology that reduce the demand for labor.²⁵⁰ Most aspects of this are not an antitrust problem either, although we show later that there are strong arguments for paying more attention to labor market concentration, particularly in merger cases.²⁵¹

Third, to the extent that merger policy is underdeterrent, too many mergers have very likely resulted in non-cost-justified price increases. As noted below, merger policy needs to become more aggressive to keep higher product prices in check.

Finally, there is a clear link between market competitiveness and the distribution of wealth. While antitrust has no place in addressing distribution of wealth aside from concerns for competition, the fact is that markets with high output and lower price cost margins can also yield greater amounts of wealth equality.²⁵² Here, the consumer welfare principle has a decided advantage over more general measures of welfare.²⁵³ Much of the increased value that results from a general welfare standard is wealth that accrues to producers. The same thing is true of Bork's approach. By contrast, the consumer welfare standard is least tolerant of market power because it does not include producer profits in its welfare calculus.

C. *Market Concentration and Merger Policy*

On market structure, antitrust can take one of three quite different paths. The first, which is Bork's approach of ignoring concentration and pursuing only monopoly or explicit price-fixing, has been completely dis-

250 One site that collects these data is the Pew Research Center. *See generally* PEW RES. CTR., pewresearch.org (last visited Oct. 27, 2018).

251 *See infra* Section III.D.

252 *See* Baker & Salop, *supra* note 245, at 5–10.

253 *Id.* at 16–17.

credited in the literature.²⁵⁴ At the opposite extreme, and consistent with movement antitrust, is the view that antitrust should pursue high concentration for its own sake. It could do so by creating a metric arbitrarily—for example, simply saying that no merger will be approved if it results in fewer than ten firms (or some other number) in a market, regardless of costs, economies of scale, or other factors that determine output and price. This approach denies many firms the economies that result from larger size. So even though prices might in some cases be closer to cost, costs would be higher.

The middle alternative is that market structure is relevant but only as a way of getting at concerns about output and price. That is, high concentration becomes an antitrust problem when it leads to lower output and higher prices. This of course imposes on antitrust enforcers a need to assess the relationship between concentration and output. For example, the structural thresholds in the 2010 Horizontal Merger Guidelines are not placed there for their own sake, but only because they support an inference that as market structures become more concentrated, the dangers of collusion or collusion-like behavior become more severe.²⁵⁵ Further, at different times people have held very different views about the relationship between high concentration and high profits or, more accurately, high margins. Bork and some members of the old Chicago school substantially denied that there was any relationship at all.²⁵⁶ By contrast, for followers of the SCP paradigm in the 1950s and 1960s, industrial concentration was the *raison d'être* for antitrust policy.²⁵⁷ The current literature continues to find a troublesome relationship between high concentration and high price-cost margins.²⁵⁸

“Industrial concentration,” as the literature often calls it,²⁵⁹ is often misunderstood by those who see high concentration as a primary antitrust target. *First*, high concentration operates as a means and not as an end in itself. *Second*, the term refers to the number of firms in a properly defined market and, as such, has little to do with absolute size.²⁶⁰ For example, if delivered cement (“redi-mix”) is a relevant market, a small community with two such firms would exhibit a high level of market concentration, even though the firms each have a dozen employees, two or three trucks, and few other assets. Premixed concrete can be delivered over only a small geographic range, meaning that the number of competing firms can be small as well. By contrast, Kroger is an enormous player in the national retail grocery market, with

254 See Hovenkamp & Shapiro, *supra* note 191, at 1998.

255 See *id.* at 2014–15.

256 See *supra* notes 182–84 and accompanying text.

257 See *supra* notes 176–79 and accompanying text.

258 See Hovenkamp & Shapiro, *supra* note 191; Jonathan B. Baker & Carl Shapiro, *Reinvigorating Horizontal Merger Enforcement*, in *HOW THE CHICAGO SCHOOL OVERSHOT THE MARK* 235, 239, 252 (Robert Pitofsky ed., 2008); Steven C. Salop, *The Evolution and Vitality of Merger Presumptions: A Decision-Theoretic Approach*, 80 *ANTITRUST L.J.* 269, 299–304 (2015).

259 E.g., *INDUSTRIAL CONCENTRATION: THE NEW LEARNING*, *supra* note 181.

260 Although size *distribution* can be relevant, but only as a mechanism for predicting output and price. See HOVENKAMP, *supra* note 223, § 12.4a2.

some 2800 stores, but that market overall is fairly unconcentrated and even Kroger has less than ten percent of it.²⁶¹

Even during the high point of antitrust concern articulated as combating industrial concentration, all sides understood that industrial concentration was not being attacked for its own sake, but rather because of a widespread belief that higher concentration led to lower output, higher prices, less competitiveness, or poorer performance measured in some other way. The first generation of concentration studies in the 1950s and 1960s attached the problem to correlations between concentration and accounting profits.²⁶² Today the concern about industrial concentration remains robust, but its focus has shifted to high price-cost margins. As firms face fewer competitors, price-cost margins tend to rise.²⁶³

So what should antitrust do about it? The correct rules are empirically determined, moving targets, which change not only with further economic theory and empirical study, but also with changes in both production and transportation technology, as well as demographics. The area that exhibits this most strongly is mergers, with enforcement policy going from severely overdeterrent in the 1960s to underdeterrent today. These changes also explain why we have had several sets of horizontal merger guidelines since the first ones were issued in 1968,²⁶⁴ and why we will very likely continue to have new sets every several years. Intelligent policy in these areas changes with further study about the structure and operation of markets, as well as with new technologies that often serve to make markets more or less competitive.

The relationship between concentration and output is a central question for antitrust policy. The history of antitrust reveals a great deal of anticoncentration rhetoric, but little in the way of accomplishment.²⁶⁵ In that regard, the safest interpretation of a recently proposed Senate bill, the Consolidation Prevention and Competition Promotion Act of 2017,²⁶⁶ is that it targets increases in concentration that also tend to reduce output. The bill is unlikely to pass in the immediate future, and some portions of it might be

261 See *Market Share of U.S. Food and Beverage Purchases in 2016, by Company**, STATISTA, <https://www.statista.com/statistics/240481/food-market-share-of-the-leading-food-retailers-of-north-america/> (last visited Sept. 18, 2018).

262 See INDUSTRIAL CONCENTRATION: THE NEW LEARNING, *supra* note 181 (recounting the debate thoroughly).

263 See, e.g., Hovenkamp & Shapiro, *supra* note 191; Michael Salinger, *The Concentration-Margins Relationship Reconsidered*, in BROOKINGS PAPERS ON ECONOMIC ACTIVITY: MICROECONOMICS 287 (Martin Neil Baily & Clifford Winston eds., 1990).

264 The Guidelines were issued in 1968; 1982, revised in 1984; 1992, revised in 1997; and 2010. The full text of the 2010 and 1997 revision versions can be found on the FTC's website. *Merger Review*, FED. TRADE COMM'N, <https://www.ftc.gov/enforcement/merger-review> (last visited Oct. 27, 2018). All of them can be found on the Antitrust Division website. *Merger Enforcement*, DEP'T OF JUSTICE, <https://www.justice.gov/atr/merger-enforcement> (last updated Oct. 11, 2018).

265 See Kovacic, *supra* note 1, at 1105 n.4.

266 S. 1812, 115th Cong. (2017).

regarded as movement antitrust. Nevertheless, the bill states a concern for higher prices and low quality,²⁶⁷ and a goal of clarifying “that the Clayton Act prohibits mergers that, as a result of consolidation, may materially lower quality, reduce choice, reduce innovation, exclude competitors, increase entry barriers, or increase price.”²⁶⁸ Properly applied, the Clayton Act should already be doing these things. The bill would change the Clayton Act incipency standard from condemning mergers that may “substantially” lessen competition to those that would “materially” lessen competition.²⁶⁹ While the precise meaning is unclear, “materially” is presumably triggered at a lower level than “substantially.” So far so good. If enacted, this portion of the bill could change the inferences to be drawn from given levels of market concentration, and also alter the burdens of proof, but not the underlying goals.

Section 3(3)(1) of the proposed legislation would permit the agencies, although not private parties, to challenge a merger if “the acquisition would lead to a significant increase in market concentration in any line of commerce or in any activity affecting commerce in any section of the country.”²⁷⁰ Then the defendants can rebut by showing that the material injury to competition will be unlikely to occur. This is not an improvement in the current analysis of mergers. Under the Guidelines’ current approach, a *prima facie* case against a coordination-facilitating merger depends on *two* things: first is the overall level of market postmerger concentration; second is the size of the increase in concentration caused by the merger.²⁷¹ The proposed provision effectively drops the first part of the inquiry without any explanation why that is important except perhaps that the bill is intended to pursue concentration for its own sake.

At least this first provision applies to horizontal mergers, because only they increase market concentration. However, section 3(3)(2) of the bill then permits the agencies to pursue mergers between firms that have reached a given size threshold, measured by dollar amount, without regard to their competitive relationship. That is, it applies to mergers that are neither horizontal nor vertical.²⁷² If the size threshold is reached, the bur-

267 *Id.* § 2(a)(6) (finding “the anticompetitive effects of market power created by concentration include higher prices, lower quality, significantly less choice, reduced innovation, foreclosure of competitors, increased entry barriers, and monopsony power”).

268 *Id.* § 2(b)(1).

269 *Id.* § 2(b)(1)–(2). On “incipency” in merger policy, see Hovenkamp, *supra* note 112, at 1, 3.

270 S. 1812, § 3(3)(1).

271 See HORIZONTAL MERGER GUIDELINES, *supra* note 49, § 5.3 (regarding concentration increases in the range of 100–200 Herfindahl-Hirschman Index points as significant, depending on whether overall postmerger concentration is between 1500 and 2500 (moderately concentrated), or exceeds 2500 (highly concentrated)); see also Hovenkamp & Shapiro, *supra* note 191, at 2003–08 (defending this approach).

272 S. 1812, § 3(3)(2). The relevant dollar amounts are spelled out:

[A]s a result of such acquisition, the acquiring person would hold an aggregate total amount of the voting securities and assets of the acquired person in excess

den shifts to the defendants to show that the acquisition would not tend to materially lessen competition, with “materially” defined as “more than a de minimis amount.”²⁷³ Even at the high point of merger enforcement aggressiveness in the 1960s and 1970s the agencies had at least a theory about how nonhorizontal mergers might reduce competition and what the evidentiary requirements were.²⁷⁴ Because nonhorizontal mergers do not increase concentration, this section can only be understood as having absolute firm size as its target.

Perhaps the proposed legislation attempts to address—although awkwardly—a serious and very real problem: too many recently approved mergers have led to higher prices.²⁷⁵ That tells us that the currently employed standards for collusion-facilitating mergers are too tolerant. In that case, however, a better solution would be to revise the Herfindahl-Hirschman Index numbers in the Guidelines, perhaps back to earlier levels in which postmerger the Herfindahl-Hirschman Index numbers exceeding 1800 were counted as highly problematic, and then employ the burden shift at that stage. Then the agencies need to stick to the numbers and convince the courts about the importance of doing so. One reason the Guidelines were revised was that the concentration numbers being applied were much higher than the concentration numbers that the Guidelines stated. That is, the agencies were not following their own Guidelines.²⁷⁶

D. Antitrust and Labor Market Monopsony

Labor market issues show up in antitrust policy in several ways. First, a merger or other practice that results in an actual output reduction and price increase in the product market will very likely lead to a job reduction as well.

of \$5,000,000,000 (as adjusted and published for each fiscal year beginning after September 30, 2018, in the same manner as provided in section 8(a)(5) to reflect the percentage change in the gross national product for such fiscal year compared to the gross national product for the year ending September 30, 2017); or . . . the person acquiring or the person being acquired has assets, net annual sales, or a market capitalization greater than \$100,000,000,000 (as so adjusted and published); and . . . as a result of such acquisition, the acquiring person would hold an aggregate total amount of the voting securities and assets of the acquired person in excess of \$50,000,000 (as so adjusted and published) . . .

Id. § 3(3)(B)(i)–(ii).

²⁷³ *Id.* § 3(3).

²⁷⁴ These theories are developed in 5 AREEDA & HOVENKAMP, *supra* note 65, ch. 11, which discusses potential competition and other “conglomerate” mergers.

²⁷⁵ See discussion *supra* note 195 and accompanying text.

²⁷⁶ See DEBORAH L. FEINSTEIN, ANTITRUST SOURCE, THE REVISED MERGER GUIDELINES: DID THE AGENCIES HEED THE LESSONS OF THE PAST? 1, 3 (2010), https://www.americanbar.org/content/dam/aba/publishing/antitrust_source/Oct10_Feinstein10_21f.authcheckdam.pdf; see also John Kwoka, Reviving Merger Control: A Comprehensive Plan for Reforming Policy and Practice (Oct. 9, 2018) (unpublished manuscript), <https://www.antitrustinstitute.org/wp-content/uploads/2018/10/Kwoka-Reviving-Merger-Control-October-2018.pdf>.

Ceteris paribus, lower output requires less labor. Traditionally, when mergers are challenged in the merging firms' output (product) markets, the impact on labor is ignored. Second, a practice that results in lower prices and higher output should increase jobs. Once again, if the challenged restraint is in the product market, litigants and courts generally ignore effects on employment. Third, a practice that results in *both* lower prices and greater productive efficiency could either increase or decrease jobs depending on the size of the resulting output increase and the nature and extent of the efficiency gains. For example, a merger that enables the postmerger firm to adopt labor saving devices or procedures could certainly reduce the demand for labor, but it is not antitrust's purpose to interfere with gains from productive efficiency, any more than it is patent law's purpose to deny patentability to labor-saving devices or processes.

Antitrust under the consumer welfare principle has a generally positive effect on employment, even though maximizing employment is not its focus. The correlation between low prices, high product output, and employment is not perfect, but it is a correlation nonetheless. That does raise a second question, however, which is whether antitrust should ever depart from the consumer welfare principle in order to improve employment outcomes? That is, are there situations in which antitrust policy should favor something other than low prices and high product output in order to increase either wages or the number of jobs? For example, should it oppose firms' adoption of labor-saving technologies, or mergers that reduce costs, simply because the cost reductions are thought to reduce the number of jobs? Once again, if the answer is yes, then the next question is metering. If a tradeoff is to be made between low consumer prices and increased employment, where do we draw the line?

Further, why use antitrust as the vehicle? If we really wanted to preserve jobs by limiting productive efficiency, changes in patent law would be a more direct route. For example, by denying patents to tractors, washing machines, automobiles, and microprocessor chips, we might reduce the incentive to invent these things. Such a policy might preserve jobs by forcing people to stay with more labor-intensive technologies. In the context of patent law such a proposal sounds perverse, but it is no less perverse in competition policy, even though the Supreme Court once pursued it.²⁷⁷ Nevertheless,

²⁷⁷ See generally *Brown Shoe Co. v. United States*, 370 U.S. 294, 372–73 (1962) (Harlan, J., concurring) (condemning vertical merger because it enabled the firm either to produce at a lower cost or else to produce better quality at the same cost); see also *Allis-Chalmers Mfg. Co. v. White Consol. Indus., Inc.*, 414 F.2d 506, 517–18 (3d Cir. 1969) (condemning a merger between a manufacturer of rolling mills, used in the production of steel, and a manufacturer of the electric hook-ups for such mills, because the merger would create “the only company capable of designing, producing and installing a complete metal rolling mill,” and this “would raise higher the already significant barriers to the entry of others”). During its heyday, the Robinson-Patman Act was often employed to the same end. See, e.g., *Anderson Foreign Motors, Inc. v. New Eng. Toyota Distrib., Inc.*, 492 F. Supp. 1383, 1386–87, 1386 n.4 (D. Mass. 1980) (on “backhaul” allowances); *Granting of “Back-Haul” Allowances to Customers Picking Up Their Own Order*, 32 Fed. Reg. 14694 (Oct. 24,

the analogies cannot be ignored: condemning a merger because it reduces costs by using less labor-intensive technologies or forms of organization is no less perverse than denying a patent for the same reason. It would put government in the job of mandating more costly production in order to keep more labor-intensive firms or technologies in the market.

This hardly denies antitrust policy a role in labor markets. It does suggest, however, that the same consumer welfare principles that apply in product markets should be applied to labor markets as well—with a little modification to account for the fact that workers *sell*, rather than purchase, their labor. Problematically, the markets in which labor is purchased are often less competitive than the product markets in which laborers work.²⁷⁸ In fact, suppression of labor market competition is an area in which the antitrust laws are often underenforced. The problems can be by and large addressed within the existing statutory framework of the antitrust laws, and without requiring abandonment of the consumer welfare principle. The issue is relevant to several practices that are reachable under the antitrust laws, including unilateral acts of wage suppression,²⁷⁹ noncompetition agreements, price-fixing and market division in wage and salary markets, and mergers threatening suppression of wages or salaries.²⁸⁰

Business firms are purchasers rather than sellers of labor, so agreements that have anticompetitive effects on employment invoke the monopsony problem. Addressing monopsony power under antitrust law can be confusing because of a tendency to presume that low prices are invariably good ones.²⁸¹ The main practical problem is distinguishing between aggressive

1967). Under the policy a seller could not compensate a firm for making a return trip from a delivery with freight moving in the return direction. The effect was to incentivize trucks to return empty in order to avoid injury to smaller rivals who were not in a position to take advantage of backhauls. On the Robinson-Patman Act's impairments of productive efficiency in order to protect rivals, see 14 HERBERT HOVENKAMP, *ANTITRUST LAW* ¶ 2340b3 (forthcoming 4th ed. 2019).

278 See José Azar et al., *Labor Market Concentration* 7–8 (Nat'l Bureau of Econ. Research, Working Paper No. 24147, 2017), <http://www.nber.org/papers/w24147>; see also Suresh Naidu et al., *Antitrust Remedies for Labor Market Power*, 132 HARV. L. REV. (forthcoming 2018) (manuscript at 14), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3129221.

279 See, e.g., *Steward Health Care Sys., LLC v. Blue Cross & Blue Shield of R.I.*, 997 F. Supp. 2d 142, 156–57 (D.R.I. 2014) (sustaining section 2 claim of monopsonistic suppression of health provider prices).

280 On the latter, see Ioana Marinescu & Herbert Hovenkamp, *Anticompetitive Mergers in Labor Markets*, 93 IND. L.J. (forthcoming 2018) (manuscript at 1), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3124483.

281 See ROGER D. BLAIR & JEFFREY L. HARRISON, *MONOPSONY IN LAW AND ECONOMICS* (2010); V. Bhaskar et al., *Oligopsony and Monopsonistic Competition in Labor Markets*, 16 J. ECON. PERSP. 155, 172 (2002) (discussing monopsony with labor markets); see also *Vogel v. Am. Soc'y of Appraisers*, 744 F.2d 598, 601 (7th Cir. 1984) (“[B]uyer cartels, the object of which is to force the prices that suppliers charge the members of the cartel below the competitive level, are illegal per se. Just as a sellers’ cartel enables the charging of monopoly prices, a buyers’ cartel enables the charging of monopsony prices; and monopoly and monopsony are symmetrical distortions of competition from an economic standpoint.”

but competitive buying, which yields higher output; and monopsony, which ordinarily reduces output.

Under monopsony, a buyer with market power in its buying market reduces its purchases to infracompetitive levels, thereby reducing the supply. This is simply a monopoly output reduction turned upside down. Monopsony in labor markets can be hard to assess, because workers do not have easily measurable marginal cost functions.²⁸² Further, labor output may not be as responsive as manufacturing is to a monopsonistic price reduction. Conceptually, however, the problem is straightforward. In a perfectly competitive labor market an employer will pay precisely the marginal value of a worker. For example, if the worker contributes ten dollars per hour to the firm's value then the wage in a perfectly competitive equilibrium would be ten dollars per hour. However, if the employer can profitably suppress the hiring market by paying eight dollars per hour and hiring fewer workers or using them for fewer hours, then it would be producing less but would be earning more from each hour of labor.²⁸³ So an exercise of monopsony power involves suppression of an input, just as an exercise of monopoly power involves suppression of output.²⁸⁴ If the range of hiring firms competing in a given area is small, the result can be suppression of wages. That is, just as high concentration leads to high price-cost margins in product sales, so too it leads to infracompetitive prices in employment markets. High labor concentration is not uncommon because employment markets are frequently smaller than product markets.²⁸⁵

Horizontal cartel agreements among employers suppressing wages are unlawful per se, and several decisions have condemned them.²⁸⁶ These

(citation omitted)). See generally Robert J. Thornton, *Retrospectives: How Joan Robinson and B. L. Hallward Named Monopsony*, 18 J. ECON. PERSP. 257 (2004).

282 On some of the measurement difficulties, see generally William M. Boal & Michael R. Ransom, *Monopsony in the Labor Market*, 35 J. ECON. LITERATURE 86 (1997); Hovenkamp, *Antitrust's Consumer Welfare Principle*, supra note 1; Douglas O. Staiger et al., *Is There Monopsony in the Labor Market? Evidence from a Natural Experiment*, 28 J. LAB. ECON. 211 (2010).

283 See Marinescu & Hovenkamp, supra note 280, (manuscript at 12–13).

284 Just as the monopolist seeks to maximize profits by equating marginal cost and marginal revenue, the monopsonist tries to equate marginal outlay with marginal revenue. See HOVENKAMP, supra note 223, § 1.2b n.25.

285 See supra text accompanying notes 269–72.

286 See *In re VHS of Mich., Inc.*, 601 F. App'x 342 (6th Cir. 2015) (approving employee class action in case alleging that eight hospitals conspired to suppress nurses' wages); *Todd v. Exxon Corp.*, 275 F.3d 191 (2d Cir. 2001) (Sotomayor, J.) (involving employees' allegations of information exchanges sufficient to support claim of conspiracy to suppress wages of oil refining defendants); *Law v. Nat'l Collegiate Athletic Ass'n*, 134 F.3d 1010 (10th Cir. 1998) (condemning agreement among NCAA colleges to limit salaries of junior basketball coaches); *Butler v. Jimmy John's Franchise, LLC*, No. 18-cv-0133, 2018 WL 3631577 (S.D. Ill. July 31, 2018) (sustaining in part claim that fast food franchisor required franchisees to put intrafranchise no-poaching agreements in employment contracts); *Deslandes v. McDonald's USA, LLC*, No. 17-c-4857, 2018 WL 3105955 (N.D. Ill. June 25, 2018) (similar); *Aya Healthcare Servs., Inc. v. AMN Healthcare, Inc.*, No. 17-cv-205, 2018 WL 3032552 (S.D. Cal. June 19, 2018) (refusing to dismiss complaint that contractor require no-poach-

agreements can be either explicit price agreements, or in some cases market division agreements.²⁸⁷ Antitrust law permits multiemployer agreements on wages or other terms of employment only in the context of collective bargaining, under the so-called “nonstatutory” labor exemption from the antitrust laws.²⁸⁸ A naked agreement suppressing competition in hiring should be treated no differently than a price-fixing or market-division agreement governing sale of a product. While these are often criminal violations, however, wage-suppression agreements have historically warranted only civil actions.²⁸⁹ That may reflect some lack of familiarity with such agreements—or it may reflect a supposition that naked wage-fixing agreements are somehow less serious than product price-fixing agreements. In any event, they should be treated symmetrically. Naked wage-suppression agreements should be criminal offenses under the same set of conditions that product price-fixing agree-

ing agreements among its various subcontractors); *California v. eBay, Inc.*, No. 12-cv-05874, 2014 WL 4273888 (N.D. Cal. Aug. 29, 2014) (approving settlement in case alleging agreement among tech firms not to hire each other’s employees); *In re High-Tech Emp. Antitrust Litig.*, 985 F. Supp. 2d 1167, 1189 (N.D. Cal. 2013) (tech firms’ “no poaching” agreement not to solicit one another’s employees and certifying employee class); *Hall v. Thomas*, 753 F. Supp. 2d 1113 (N.D. Ala. 2010) (excluding expert testimony concerning causation in case alleging that defendant unlawfully suppressed wages of workers in poultry processing plant); *Reed v. Advocate Health Care*, 268 F.R.D. 573 (N.D. Ill. 2009) (involving complaint of hospital conspiracy to suppress nurses’ wages; denying class certification for failure to show impact by common proof); *Mueller v. Wellmark, Inc.*, 818 N.W.2d 244 (Iowa 2012) (rejecting most parts of claim that health insurer paid discriminatorily low reimbursement rates to chiropractors); *see also Maniwoc Co. v. Lanning*, 906 N.W.2d 130 (Wis. 2018) (divided state supreme court condemning antipoaching agreements after concluding that statute has same meaning as section 1 of the Sherman Act); *cf. Mendoza v. Zirkle Fruit Co.*, 301 F.3d 1163 (9th Cir. 2002) (sustaining documented agricultural laborers’ complaint that fruit growers imported undocumented workers with intent of suppressing wages of documented workers). *See generally* Orly Lobel, *The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property*, 93 TEX. L. REV. 789 (2015); Robert E. Bloch & Scott P. Perlman, *Reed v. Advocate Health Care: Anatomy of Class Certification Proceedings in a Wage Conspiracy Case*, ANTITRUST, Summer 2010, at 63, 63.

287 For example, antipoaching agreements, such as described in *In re High-Tech Emp. Antitrust Litig.*, 985 F. Supp. 2d 1167, operate as market division agreements rather than explicit price-setting agreements. The employers are not fixing prices but rather making it more difficult for employees to move from one employer to another. In this case the agreements forbade participants from calling one another’s software engineers to offer them an opportunity to switch jobs. The government had obtained a consent decree in the same case. *United States v. Lucasfilm, Inc.*, No. 10-cv-02220, 2011 WL 2636850 (D.D.C. June 3, 2011).

288 *E.g.*, *Brown v. Pro Football, Inc.*, 518 U.S. 231 (1996) (sustaining multiemployer union contract involving NFL team owners); *see* 1B AREEDA & HOVENKAMP, *supra* note 62, ¶ 256.

289 *E.g.*, Press Release, U.S. Dep’t of Justice, Justice Department Requires eBay to End Anticompetitive “No Poach” Hiring Agreements (May 1, 2014), <https://www.justice.gov/opa/pr/justice-department-requires-ebay-end-anticompetitive-no-poach-hiring-agreements>.

ments are. In early 2018 the Department of Justice’s Antitrust Division announced its intention to prosecute antipoaching agreements criminally.²⁹⁰

The labor monopsony issue also arises in merger cases, where it can be particularly difficult to assess. A postmerger firm’s ability to bargain for lower outlays for wages or salaries could be regarded as either an “efficiency defense” to the merger, or else as an exercise of monopsony power. Suppose that two hospitals in a concentrated market should merge, offering as a defense their ability to negotiate reduced rates from certain providers. The question that defense invites is whether the postmerger firm is able to bargain down the price by purchasing in higher volume, thereby reducing transaction costs, or perhaps by counterbalancing market power in the selling market. In those cases, the postmerger firm’s ability to obtain lower input prices is efficient, and output of the purchased input can be expected to increase. By contrast, if the firm is taking advantage of labor market concentration to suppress output further by driving prices down, then the reduced price is not efficient at all but anticompetitive.²⁹¹

In *United States v. Anthem, Inc.*, a divided panel of the D.C. Circuit condemned a merger of health insurers operating in two concentrated markets, rejecting as unsubstantiated a proffered efficiency defense that the postmerger firm would be able to negotiate lower provider rates.²⁹² The court also observed that if the lower rates were an exercise of monopsony power they would not constitute a defense²⁹³—a position taken by the 2010 Horizontal Merger Guidelines.²⁹⁴ A dissenting judge found the efficiencies defense to be adequate but also acknowledged the government’s alternative theory of the case, which was that the postmerger firm would have “monopsony power in the upstream market where Anthem-Cigna negotiates provider rates with hospitals and doctors.”²⁹⁵

Business firm markets for hiring are often just as concentrated, if not more, than the product markets in which these firms operate.²⁹⁶ One reason

290 See Eleanor Tyler, *Justice Dept. Is Going After ‘No-Poach’ Agreements*, BLOOMBERG BNA (Jan. 19, 2018), <https://www.bna.com/justice-dept-going-n73014474358/>.

291 See Marinescu & Hovenkamp, *supra* note 280, (manuscript at 3).

292 *United States v. Anthem, Inc.*, 855 F.3d 345, 356, 371 (D.C. Cir. 2017).

293 *Id.*; *cf. W. Penn Allegheny Health Sys., Inc. v. UPMC*, 627 F.3d 85 (3d Cir. 2010) (sustaining complaint that large hospital system and health insurer conspired to suppress reimbursement rates paid to providers); *N.M. Oncology & Hematology Consultants, Ltd. v. Presbyterian Healthcare Servs.*, 54 F. Supp. 3d 1189 (D.N.M. 2014) (sustaining cancer treatment facility’s complaint of conspiracy between hospital and insurer to suppress reimbursement rates).

294 See HORIZONTAL MERGER GUIDELINES, *supra* note 49, § 10 (“Cognizable efficiencies . . . do not arise from anticompetitive reductions in output or service.”).

295 *Anthem*, 855 F.3d at 377 (Kavanaugh, J., dissenting). The district court had not decided the monopsony issue, and the dissenter would have remanded for that determination. *Id.*

296 See Azar et al., *supra* note 278, at 2. A related manifestation is that, because of wage suppression, wages make up a decreasing share of firm output and also of gross domestic product. See generally Jordan D. Matsudaira, *Monopsony in the Low-Wage Labor Market? Evidence From Minimum Nurse Staffing Regulations*, 96 REV. ECON. & STAT. 92 (2014); David

this is so is that the geographic markets in which firms hire are often much smaller than the markets in which they sell their products.²⁹⁷ For example, a Silicon Valley tech firm might hire its engineers and other computer specialists in a relatively small geographic market, but sell its product nationwide or even worldwide. As the *Anthem* case indicates, the government has not ignored the problem, but it deserves more attention.²⁹⁸

Is aggressive use of antitrust against anticompetitive wage or salary suppression consistent with the consumer welfare principle? Yes, provided that we are talking about true exercises of market power. The real problem of antitrust policy toward monopsony is not defending a policy so much as recognizing it in a particular case. If firms involved in anticompetitive suppression of wages have any significant power in the product or service market in which they sell, then wage suppression that reduces the amount of labor can be expected to translate into an output reduction in the product market as well. As a firm uses less labor it produces less, and if it has market power on the output side its price will rise. That would make it a clear case of consumer harm. While monopoly results in higher priced transactions and monopsony in lower ones, both tend to result in reduced output.

From a consumer welfare perspective, the harder case occurs when firms exercising market power for the purchase of labor lack power in the market in which they sell. In that case they may still produce less, but in a competitive market, consumers in the product market will not be harmed. For example, a firm might hire locally and hold considerable monopsony power in the labor market but sell its product nationwide or worldwide in a highly competitive market.²⁹⁹ Here, the “consumer” label needs to be stretched a little, but not very much. Every employed person appears on the market as both a consumer and as a seller of his or her wages. For the purpose of analyzing wage suppression agreements, the worker stands in the same position on the

Autor et al., *Concentrating on the Fall of the Labor Share* (Nat'l Bureau of Econ. Research, Working Paper No. 23108, 2017), <http://www.nber.org/papers/w23108>; David Autor et al., *The Fall of the Labor Share and the Rise of Superstar Firms* (Nat'l Bureau of Econ. Research, Working Paper No. 23396, 2017), <http://www.nber.org/papers/w23396>.

297 Azar et al., *supra* note 278, at 7.

298 HORIZONTAL MERGER GUIDELINES, *supra* note 49, do include a section on mergers of powerful buyers. This section also notes the difference between anticompetitive exercise of monopsony power and efficient but competitive buying practices. They then give this example:

Example 24: Merging Firms A and B are the only two buyers in the relevant geographic market for an agricultural product. Their merger will enhance buyer power and depress the price paid to farmers for this product, causing a transfer of wealth from farmers to the merged firm and inefficiently reducing supply. These effects can arise even if the merger will not lead to any increase in the price charged by the merged firm for its output.

Id. § 12.

299 These were the facts of *Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co.*, 549 U.S. 312 (2007), which involved predatory buying for a product input. The defendant purchased raw hardwood locally but sold finished lumber in a national market in which it was a competitor.

sell side as the consumer does on the buy side. So in this case, the same tools of economic analysis can be brought to bear.

In sum, the best understanding of consumer welfare is as promoting markets in which output of both product and labor is as high as competition permits. To be sure, not every exercise of market power results in a significant output reduction. For certain goods the elasticity of demand (or supply) is extremely low, and as a result output may not decline very much in response to a monopoly price increase. Typically, these are goods that consumers regard as necessities, or perhaps because the purchase requirement is set by a third party, and for which no good substitutes are available. Examples include pediatric visits, necessary medical procedures, salt, and college textbooks.³⁰⁰ At least in the short run, a price increase for these results in a relatively low decline in output. On the buy side, the evidence suggests that labor, depending on the profession, is also a low-elasticity good, meaning that a reduction in wages does not necessarily produce a significant reduction in supply.³⁰¹ On the other hand, the correlation between wages and labor market concentration is strong, indicating that monopsony or oligopsony can be inferred from high-concentration levels, just as it is for monopoly or oligopoly in product markets.³⁰²

Antitrust merger policy should also not hesitate to limit acquisitions that lessen competition in the labor market even though the participants do not compete in any product market. This could take antitrust merger policy into situations whose complexities are largely unresolved. Take as a completely hypothetical example a merger between Google, whose principal products are software, and Intel, whose principal product is processor chips. One might assume that the two firms have none or at least few overlapping products, so a merger between them would be considered nonhorizontal and subjected to lenient antitrust treatment. But on the supply side they may compete intensely for computer engineers or other highly trained employees, and for these the geographic market could be local—far smaller than the worldwide market in which the two firm sells most of their products. In that case the merger should be addressed as horizontal and assessed on the basis of concentration in the labor supply market for the professions in question.

Some labor suppression cartel cases have acknowledged this, reaching agreements between firms that compete for the same employees even though

300 *E.g.*, Patrick L. Anderson et al., Price Elasticity of Demand (Nov. 13, 1997) (unpublished handout), https://scholar.harvard.edu/files/alada/files/price_elasticity_of_demand_handout.pdf; *see also Reading: Examples of Elastic and Inelastic Demand*, LUMEN LEARNING, <https://courses.lumenlearning.com/microeconomics/chapter/reading-examples-of-elastic-and-inelastic-demand/> (last visited Jan. 28, 2018).

301 *See* RONALD G. EHRENBERG & ROBERT S. SMITH, MODERN LABOR ECONOMICS 134–45 (12th ed. 2016); *see also, e.g.*, Staiger et al., *supra* note 282. *See generally* Torberg Falch, *The Elasticity of Labor Supply at the Establishment Level*, 28 J. LAB. ECON. 237 (2010); Michael R. Ransom & David P. Sims, *Estimating the Firm's Labor Supply Curve in a "New Monopsony" Framework: Schoolteachers in Missouri*, 28 J. LAB. ECON. 331 (2010).

302 *See* Azar et al., *supra* note 278, at 2.

they do not compete to any significant extent in the product market. For example, *California v. eBay, Inc.* approved the settlement of an antitrust case involving an agreement between eBay and Intuit not to hire one another's computer engineers and scientists.³⁰³ eBay is an online auction broker for new and used goods of all types. Intuit is a producer of business and accounting software whose principal products include TurboTax and QuickBooks. eBay incidentally offers new and used copies of Intuit products on its website when third-party vendors place them there, but that relationship between the two firms is vertical and very minor. The firms do not obviously compete in any product market. To the extent that they compete for the same category of employees in the hiring market, however, they are competitors and antitrust merger policy should treat them accordingly. Given that the two firms can profitably collude in this hiring market, a merger of the two should also be of competitive concern.

CONCLUSION

This Article began with a historical question about whatever happened to the antitrust movement. The short answer is that antitrust grew up. It ceased to be the stuff of political banners and loose rhetoric and turned into a serious discipline, applying defensible legal and empirical techniques to problems within its range of competence.

The way to repair deficiencies in antitrust law today is not to resort to an undisciplined set of goals that provide no guidance and could do serious harm to the economy. Rather, it is to make ongoing adjustments in our technical rules of antitrust enforcement which reflect what research and experience have taught us.

The antitrust laws can reach nearly every form of anticompetitive behavior, provided that they are interpreted flexibly, but this need not entail throwing out rational evidentiary requirements or accepting expansive theories of harm without proof. Further, antitrust tribunals need to avoid remedies that do more harm than good. Hobbling a large firm is easy; increasing output and benefitting consumers in the process may be much more difficult.

One ongoing problem of antitrust enforcement is assessing effectiveness. Testing antitrust outcomes can be difficult. One advantage of the consumer welfare principle applied to merger law is that it gives us a testable proposition: if the goal of merger policy is to prevent mergers that threaten reduced output and higher prices, then we can evaluate consummated mergers by that standard and see how we are doing. One should not minimize the difficulties. A few mergers might lead to things such as quality improvements that are harder to test for, but in general the success of merger enforcement under the consumer welfare principle is testable and has in fact been widely tested. The evidence is troublesome, because it suggests that many mergers

³⁰³ *California v. eBay, Inc.*, No. 12-cv-05874, 2014 WL 4273888 (N.D. Cal. Aug. 29, 2014).

that the agencies approved have led to higher prices.³⁰⁴ To the extent that is true, merger standards need to be revised and continuously reexamined.

Cartel price fixing³⁰⁵ and resale price maintenance are two other practices that have been subjected to a fair amount of empirical testing, although in the case of resale price maintenance, one still may need to adjust for differences in service quality.³⁰⁶ What all these practices have in common is observable effects that relate the antitrust rule governing the practice to resulting prices.

Unfortunately, other areas of antitrust do not lend themselves so readily to such testing. How would one test whether the existing predatory pricing law is underdeterrent? Or the rule of reason in joint venture cases? There are too few cases and they tend to be idiosyncratic. Devising better testability needs to be an important piece of technical antitrust's agenda. But this fact hardly places technical antitrust at a disadvantage vis-à-vis movement antitrust. The grand generalizations of movement antitrust, with its far-flung expectations and unexamined rhetoric, defy testability.

When it performs well, technical antitrust should be able to promote the highest output consistent with unmanaged competition. That in turn will do everything that antitrust is capable of doing for collateral interests such as full employment and more egalitarian wealth distribution.

304 See KWOKA, *supra* note 195, at 76; Hovenkamp, *supra* note 195, at 716.

305 See generally John M. Connor & Robert H. Lande, *The Size of Cartel Overcharges: Implications for U.S. and EU Fining Policies*, 51 ANTITRUST BULL. 983 (2006) (summarizing studies); John M. Connor, *Price-Fixing Overcharges* (Feb. 25, 2014) (unpublished manuscript), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2400780.

306 See Alexander MacKay & David Aron Smith, *The Empirical Effects of Minimum Resale Price Maintenance* (Kilts Booth Marketing Series, Working Paper No. 2-006, 2014), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2513533 (finding some evidence that consumer prices are higher under rule of reason and discussing numerous other studies); see also Thomas W. Gilligan, *The Competitive Effects of Resale Price Maintenance*, 17 RAND J. ECON. 544 (1986) (finding welfare effects of resale price maintenance vary depending on the purpose for which it is used); Pauline M. Ippolito, *Resale Price Maintenance: Empirical Evidence From Litigation*, 34 J.L. & ECON. 263 (1991) (similar).

