

An Open Letter to President Clinton from 240 Economists on Antitrust Protectionism

Dear President Clinton:

Antitrust is supposed to be about protecting consumers against higher prices and other consequences of monopoly power. Accordingly, the Justice Department's Antitrust Division, the Federal Trade Commission, and state attorneys general are vested with authority to defend competition and protect the well-being of consumers.

The current spate of heightened antitrust activism seems to suggest that anti-competitive business practices abound. Headline-grabbing cases against Microsoft, Intel, Cisco Systems, Visa and MasterCard, along with a flurry of merger investigations now under way, would appear to demonstrate the need for a vigorously enforced antitrust policy that will create checks and balances to eliminate consumer harm.

However, consumers did not ask for these antitrust actions — rival business firms did. Consumers of high technology have enjoyed falling prices, expanding outputs, and a breathtaking array of new products and innovations. High technology markets are among the most dynamic and competitive in the world, and it is a tribute to open markets and entrepreneurial genius that American firms lead in so many of these industries. But, these same developments place heavy pressures on rival businesses, which must keep pace or lose their competitive races. Rivals can legitimately respond by improving their own products or by lowering prices. Increasingly, however, some firms have sought to handicap their rivals' races by turning to government for protection.

Where antitrust authorities respond to these protectionist demands, the workings of markets are short-circuited. Antitrust protectionism means that market decisions about how to compete for consumers' favor are displaced by bureaucratic and political decisions. More of the energies of firms are directed to politics, less to production and innovation. Successful innovators are penalized, scale economies are lost, and competition is thwarted, not enhanced. Instead of preventing prices from rising, antitrust protectionism keeps prices from falling.

Many of these cases are based on speculation about some vaguely specified consumer harm in some unspecified future, and many of the proposed interventions will weaken successful U.S. firms and impede their competitiveness abroad. The cost-benefit test for antitrust has not been met. We urge anti-trust authorities to abandon antitrust protectionism and refrain from such speculative enterprises when actual consumer harm cannot be shown.

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