

POWERLESS:

How Lax Antitrust and Concentrated Market Power Sink Small Businesses and Threaten Entrepreneurship

For much of the 20th century, small businesses, and the jobs they created, centered our communities and helped to drive shared economic prosperity. Yet in today's economy, small businesses are disappearing. New businesses form at roughly half the rate they did in 1980, are less plentiful—representing 30 percent of all businesses in 2013, as opposed to 50 percent in 1980—and create fewer jobs.¹ The rate of business closures is now higher than the rate of new business formations for the first time since the 1970s, when researchers started collecting data.²

Decades of corporate consolidation through lax antitrust enforcement have placed small businesses at the mercy of massive corporations, which use their power and wealth to purchase competitors or drive them out of business. Robust enforcement and updated antitrust laws are needed to restore the business dynamism that has been a key driver of middle class prosperity.

POWERFUL COMPANIES CREATE BARRIERS TO ENTRY, FREEZING OUT NEW BUSINESSES AND POTENTIAL COMPETITORS.

Powerful firms leverage their dominance to impair current competitors and prevent new competitors from forming. In 2016, for example, Google cut off access to search data that had previously served as the foundation for several third-party airfare search engines. Almost simultaneously, Google launched its own competing airfare search and booking engine, destroying those businesses and effectively forestalling other companies from entering the market.³

Companies that hold a large share of a given market can also prevent new companies from forming in related industries. For example, if a dominant manufacturing firm also owns the company that provides its raw materials—a tactic known as vertical integration—or decides to purchase its raw materials exclusively from one provider, then it can effectively preempt new raw material suppliers from entering the market. These practices were once closely regulated but are now common, encouraging further consolidation by firms looking to ensure viability among mega competitors.



POWERFUL COMPANIES USE A VARIETY OF TACTICS THAT SQUEEZE SMALLER COMPANIES TO EXTRACT PROFITS OR ELIMINATE THEM AS COMPETITORS.

By selling goods and services below cost—a tactic referred to as “predatory pricing”—powerful firms are able to eliminate small, vulnerable competing companies. Amazon used this strategy in their acquisition of both Zappos and Diapers.com. In each case, Amazon dug into its considerable financial and logistical resources, incurring hundreds of millions of dollars in losses as part of a campaign to undercut and then purchase these competitors.⁴ Predatory pricing thus places small businesses with less financial reserves and fewer resources at a steep disadvantage to larger and wealthier established firms. The practice, though illegal, has become effectively unenforceable under the current policy regime.

Firms that command large market shares in linked markets can use their power to extract profits by leveraging their structure, making competitors less profitable and threatening their long-term viability. Recently, CVS cut payments to independent pharmacies through its pharmaceutical benefit manager, Caremark. Since Caremark is one of the country’s largest benefits managers, these independent pharmacies could not afford to walk away from their business, and were therefore forced to accept dwindling reimbursements. To make matters worse, CVS then pressed to buy the very pharmacies they had helped imperil.⁵ Small businesses simply cannot stand up to the bullying tactics of oversized competitors.

A recommitment to robust antitrust and competition policy will restore an environment that rewards entrepreneurship and restores all of the benefits that accompany business dynamism. There are several steps we can and should take to revive antitrust policy and curb outsized market power:

- **Regulate market structure** in order to prevent the dominance of large firms with the power to block and eliminate competitors. This can be accomplished by blocking mergers—specifically vertical integration—and restructuring overly powerful firms.
- **Curtail anti-competitive behavior** by prohibiting and punishing behaviors that are extractive—like predatory pricing and exclusive dealing.
- **Regulate platforms and other “natural monopolies” as utilities.** Many of the businesses described above derive their power from their platform nature—by controlling how consumers access products—and abuse this power by competing directly on their own platform or by setting different terms for different participants. Antitrust authorities must regulate these harmful practices to protect small businesses.

For additional information on market power, see <http://rooseveltinstitute.org/powerless>.



- ¹ Furman, Jason. 2016. "Beyond Antitrust: The Role of Competition Policy in Promoting Inclusive Growth." Speech delivered at Searle Center Conference on antitrust economics and competition policy. Retrieved March 20, 2018 (https://obamawhitehouse.archives.gov/sites/default/files/page/files/20160916_searle_conference_competition_furman_cea.pdf).
- ² Harrison, J.D. 2015. "The Decline of American Entrepreneurship—in Five Charts." February 12, *The Washington Post*. Accessed March 20, 2018 (https://www.washingtonpost.com/news/on-small-business/wp/2015/02/12/the-decline-of-american-entrepreneurship-in-five-charts/?utm_term=.fa7fd05109b6).
- ³ Kulp, Patrick. 2017. "Google is Shutting Down an Airfare Search API in a Setback for Travel Booking Competitors." November 1, *Mashable*. Accessed March 20, 2018 (<https://mashable.com/2017/11/01/google-airfare-feed-shutdown/#t2QL4oGxgPq6>).
- ⁴ Bernstein, Eric Harris and Marshall Steinbaum. 2017. "#BreakUpAmazon." New York, NY: Roosevelt Institute. Accessed March 20, 2018 (<http://rooseveltinstitute.org/breakupamazon/>).
- ⁵ The Capitol Forum. 2018. "CVS/Aetna: State Regulators Urged to Investigate CVS Caremark Reimbursement Cuts, Solicitation Letters, as Part of Aetna Review." State Regulatory Update. Accessed March 20, 2018 (<https://2w1rra42fkzx2u7tur3ns4leh2i-wpengine.netdna-ssl.com/wp-content/uploads/2018/01/CVS-Aetna-2018.01.12-ns-1.pdf>).



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