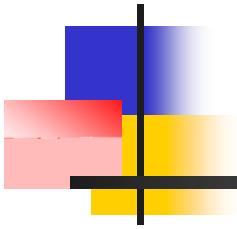


Vertical Restraints: What does the evidence imply for policy?



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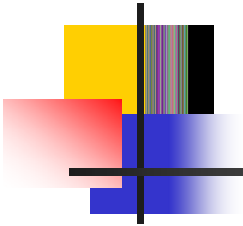
Outline

- › I. Spread of antitrust
- › II. Coming Conflicts
- › III. Solutions?

Global Proliferation of Competition Laws



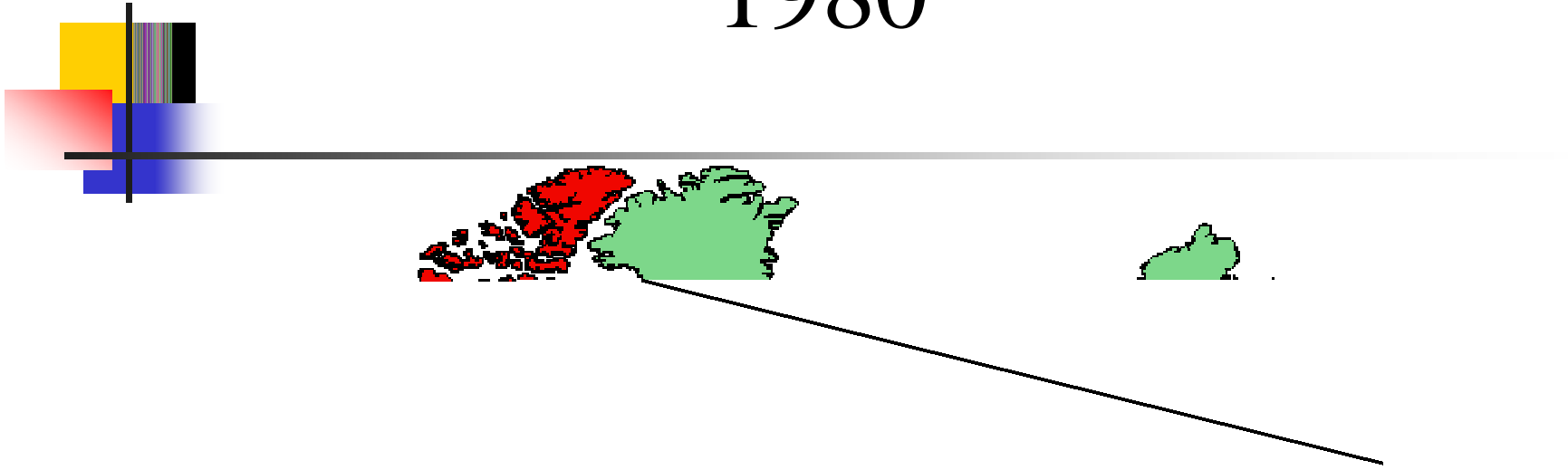
1900



Laws enacted in 1900 or before

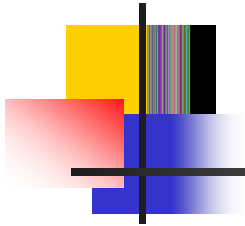


1980

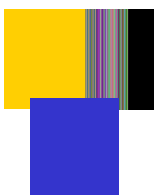


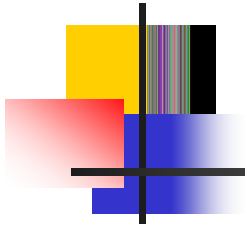
Laws enacted in 1980 or before

1990



Laws enacted in 1990 or before







Enforcement Priorities

- › US
 - › 1. Cartels
 - › 2. Mergers
 - › 3. Abuse of dominance
- › New antitrust regimes
 - › 1. Abuse of dominance
 - › 2. Mergers
 - › 3. Cartels



What Economics tells us about Abuse of Dominance Cases?

- › Theory gives us possibility theorems
 - › Necessary conditions for harm è safe harbours
- › What happens when we export necessary conditions to new regimes?
 - › They become sufficient



Can we find a screen?

- › Search for screen is elusive
 - › conditions for harm are same as for benefits
- › Choose screen based on beliefs about frequency and size of type I and II errors
 - › Primary market power
 - › Secondary market power
 - › Makes no business sense “but for” exclusion
- › Can we export a screen to another regime that doesn't share our beliefs?



What is the Evidence on Abuse of Dominance?

- › Estimating effects of vertical restraints
 - › Control Group (with restraint)
 - › Experimental group (without restraint)
- › è vertical contracts and integration
 - › Reduce price
 - › Induce demand-increasing services



Representative Experiments

- › *Gasoline*: prices 2.7¢/gallon higher in states with vertical divorcement laws
 - › Vita and Sacher (2000)
- › *Beer*

Results: Probability a Channel was Dropped or "Excluded"

	NOT Advertising competitor	Advertising competitor
Broadcast Competitor	1.5%	1.1%
NOT Broadcast Competitor	8.4%	6.2%

- › Competitors LESS likely to be dropped
- › Channels with low ratings dropped
- › Refutes "Exclusion" hypothesis



Summary of Empirical Evidence: LaFontaine & Slade

- › when manufacturers ... impose ... restraints, not only



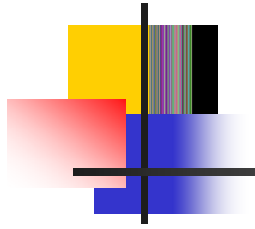
Should we use an evidentiary standard?

- › Bring cases where we have a good natural experiment?
 - › Comparing markets with and without restraint, what is effect of restraint?
 - › Time Series data (before vs. after)
 - › Cross section data



Can we use Evidence to Guide Policy?: Competition Advocacy

- › Vertical divorcement
 - › FTC study showed Gasoline divorcement raised prices by 3 cents per gallon.
 - ›





What new antitrust enforcers are saying

- › “our economies are different from yours”
 - › Former state-owned monopolies are deregulated, and abuse dominant positions
- › Does this distinction matter?
 - › Deterrence is a forward-looking analysis.



Regulatory Evasion

- › Regulated local monopolists can evade regulation
 - › By tying, bundling, excluding
- › Implications
 - › Vertical restraints bad
 - › Consumers hurt
 - › Price goes up
 - › Competitors hurt
- › è Theory and evidence supports prosecution



Deregulated Monopolist

- › Can extract profit with price alone
 - › Exception: price discrimination
- ›



Concluding thoughts

- › Nations are not powerful because they possess wide lands, safe ports, large navies, huge armies, fortifications, stores, money, and credit. They acquire those advantages because they are powerful, having devised on correct principles the political structure which allows the flow of energy to take its proper course."
 - › Isabel Paterson, *The God of the Machine*, 1943



Good Government Matters

- › People living in countries with high levels of economic freedom
 - › \$23,450 annual income
 - › 2.6% income growth
- › with low levels of economic freedom
 - › \$2,560 annual income
 - › (0.9%) income LOSS



Do new antitrust regimes lay the micro foundations of poverty?

- › Conclusion: not just more research, but more research that informs policy
 - › What are we doing?
 - › What is effect of enforcement on price, quantity, quality?
 - › More empirical research on effects of restraints generally