

# Antitrust and democracy

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June 27, 2024

# Background



# The relationship between antitrust and democracy

- The motivation for the Sherman act of 1890 was to restrict the power of the great industrialists against farmers, entrepreneurs, and consumers (Fox, 2018)
- Senator John Sherman in the U.S. congress: “If we will not endure a king as a political power we should not endure a king over the production, transportation, and sale of any of the necessities of life. If we would not submit to an emperor we should not submit to an autocrat of trade, with power to prevent competition and to fix the price of any commodity.”
- The Supreme Court echoed the same sentiment in its 1958 *Northern Pacific R. Co. v. United States* decision:
- “The Sherman Act ... rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality, and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and social institutions.”

# The relationship between antitrust and democracy

- President Roosevelt's message to congress in 1938: "[T]he liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is Fascism—ownership of Government by an individual, by a group, or by any other controlling private power."
- "We believe in a way of living in which political democracy and free private enterprise for profit should serve and protect each other—to ensure a maximum of human liberty not for a few but for all."
- President Biden in July 2021: "excessive market concentration threatens ... democratic accountability"

## Why is there a concern?

- In Germany, large corporations like IG Farben supported the Nazi regime in exchange for the protection of their interests (IG Farben was dissolved after the war into BASF, Agfa, Bayer, etc.)
- The Ordoliberalists in Germany argued after WW2 that the state should encourage competition to prevent the formation of monopolies capable of political influence
- In Russia, Putin has made an alliance with oligarchs who help him maintain his position

# Democracy and media markets

- There is a concern about control of the media or restricting competition in the "market of opinions"
  - Musk dominates X (Twitter); Zuckerberg dominates Meta
- Authoritarian regimes distort competition in the media market
  - Orban diverts advertising budgets to media channels of associates in exchange for favorable media coverage (Szeidl and Szucs, 2021)
- Competition in the media market leads to more extreme political outcomes
  - Entry of Craigslist into media markets harms local newspapers and leads to less news coverage and more extreme politics (Djourelouva, Durante, and Martin, 2023)
- Competition in media markets affects competition in product markets
  - Part and Valletti (2022)

# **Szeidl and Szucs, *Econometrica*, 2021**

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**The effect of (no) democracy on competition in the media market**

# Government advertising in right-wing media

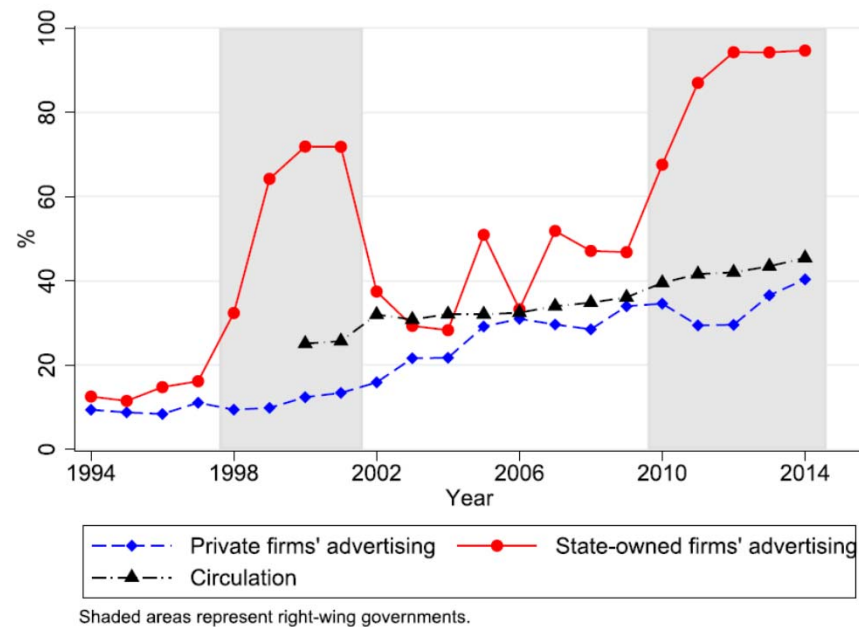


FIGURE 1.—Share of right daily relative to left and right daily,  $R/(L + R)$ .



## Government advertising in the Metropol after its acquisition by Simicska (an ally of Orban) in 2011

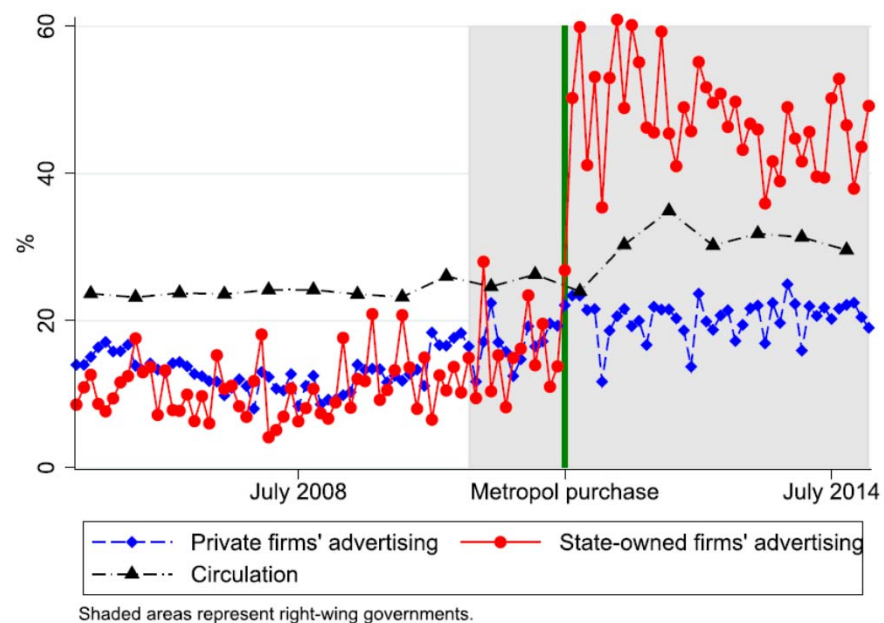


FIGURE 2.—Share of Metropol around purchase by connected investor,  $Metropol/All$ .

## The fight between Orban and Simicska in 2015

■ ב-2015 סימיצ'קה, הבעלים של העיתונים מגיאר נמצט ומטרופול, הסתכסך עם אורבן

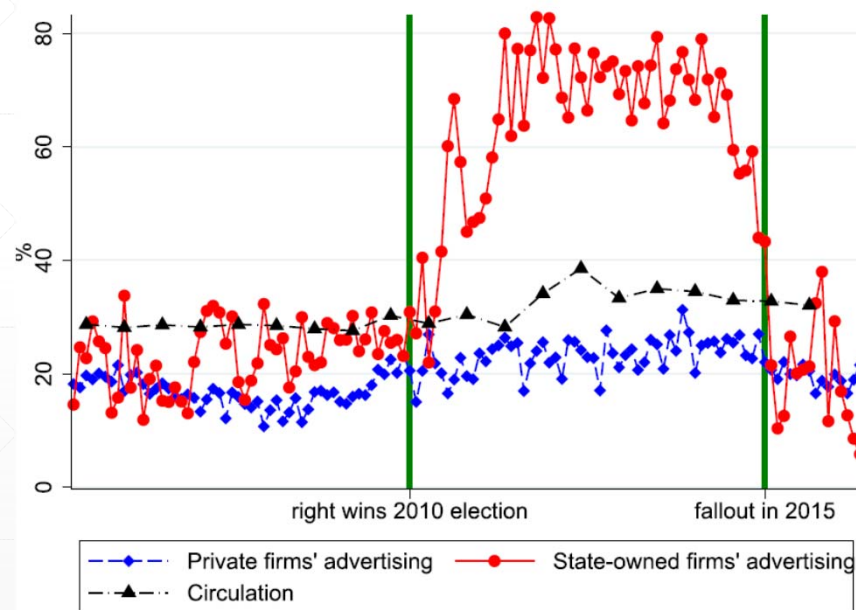


FIGURE 3.—Share of investor's dailies around fallout,  $R/All$ .

## Coverage of government corruption in Magyar Nemzet after the fallout between Orban and Simicska in 2015

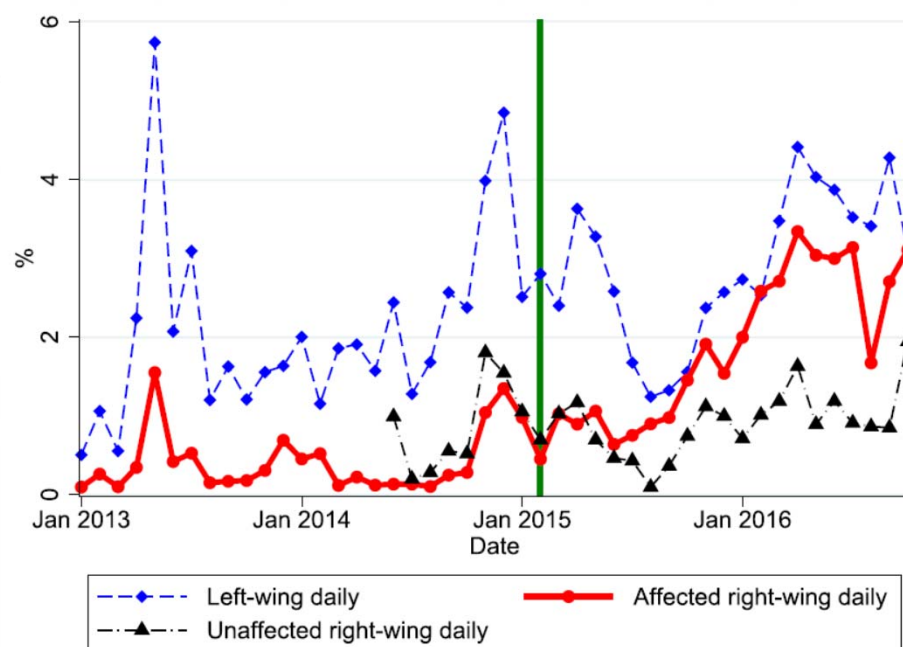


FIGURE 5.—Coverage of corruption scandals around fallout.

## Government advertising in the portal Origo after it replaced an editor in 2014 due to government pressure and was sold to an Orban ally in 2016

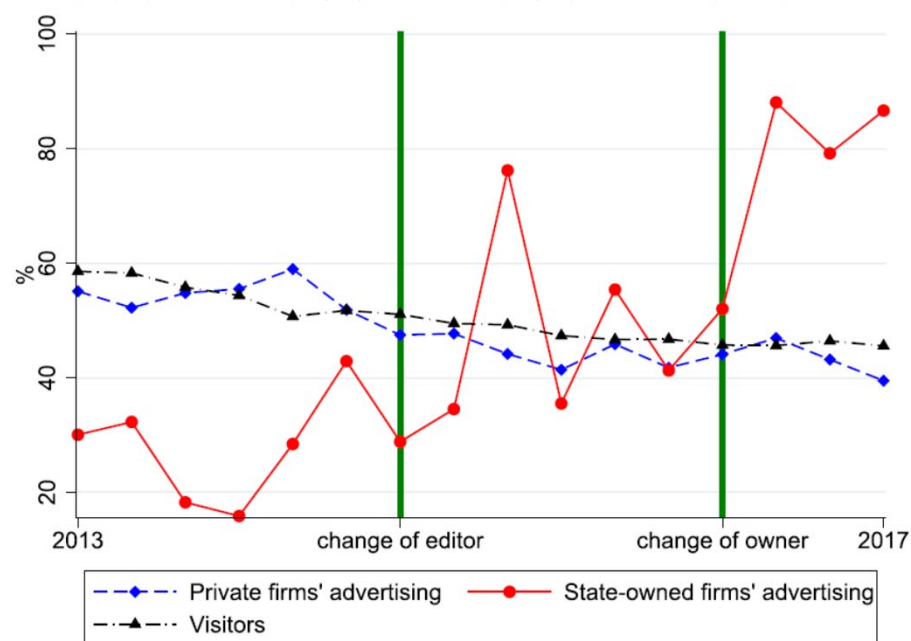


FIGURE 4.—Share of Origo around change in editor and owner,  $Origo/(Index + Origo)$ .

## Coverage of government corruption by Origo

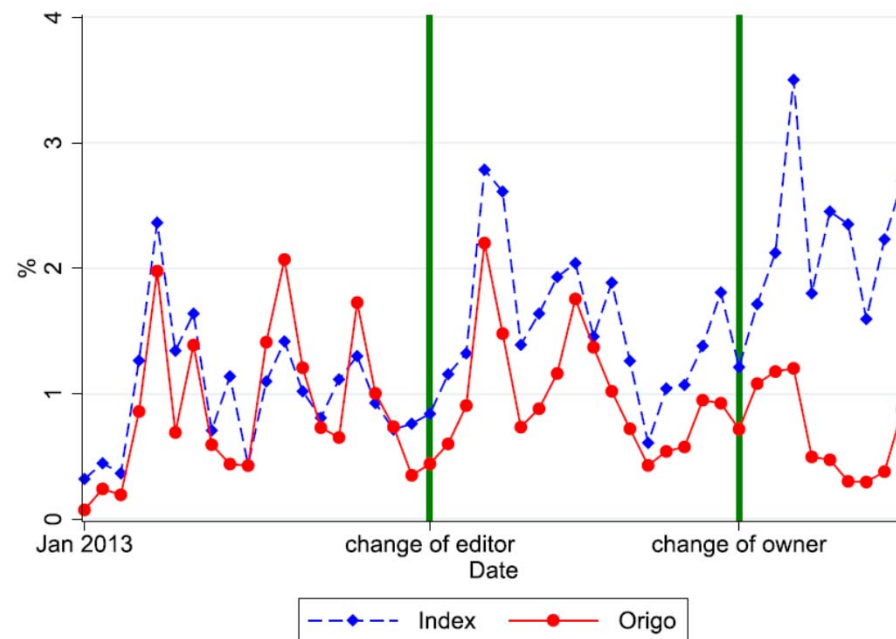


FIGURE 6.—Coverage of corruption scandals in Origo around new editor and acquisition.

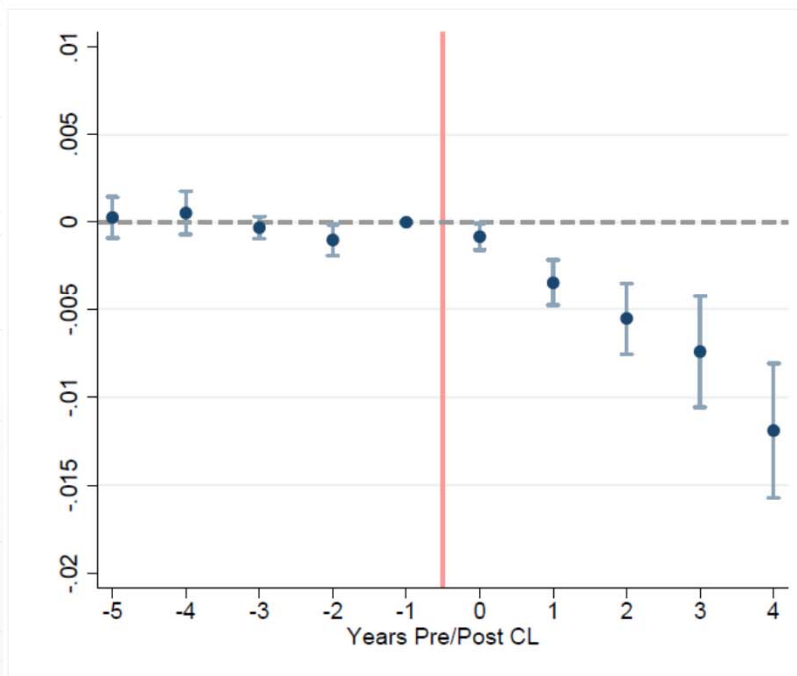
# Djourelouva, Durante, and Martin, 2023

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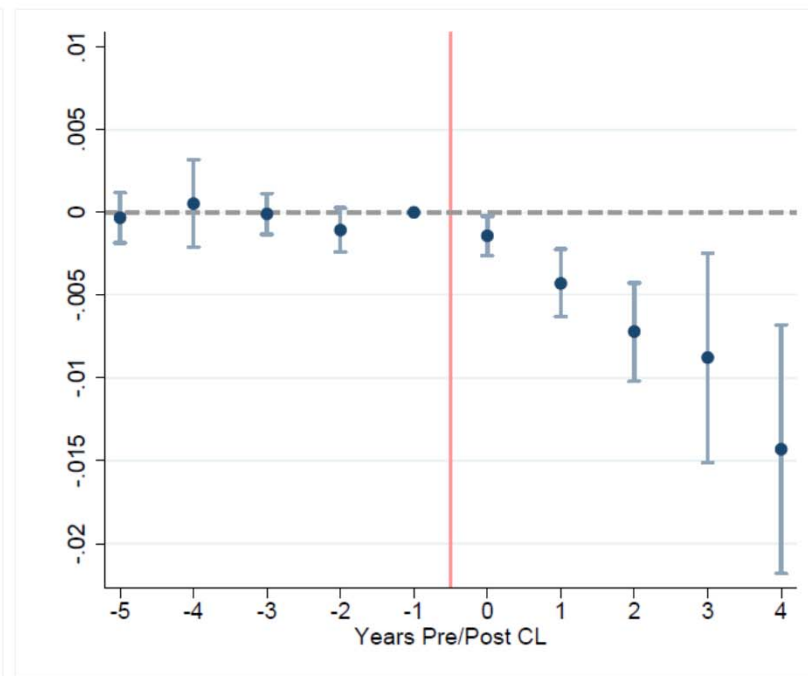
The effect of competition in the media market on democracy

# Circulation of local newspapers in the US following entry by Craigslist

Post-CL

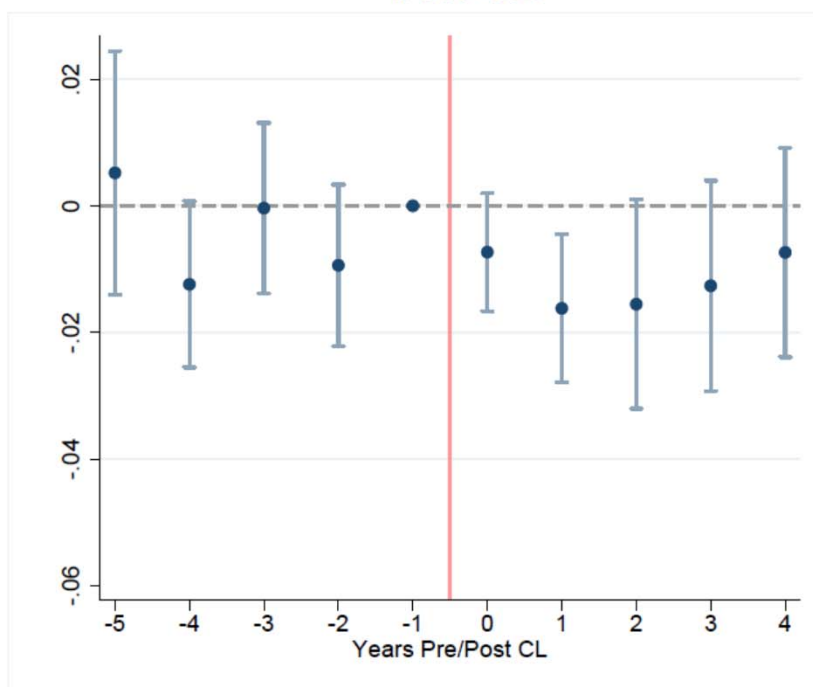


Post-CL  $\times$  Classified manager

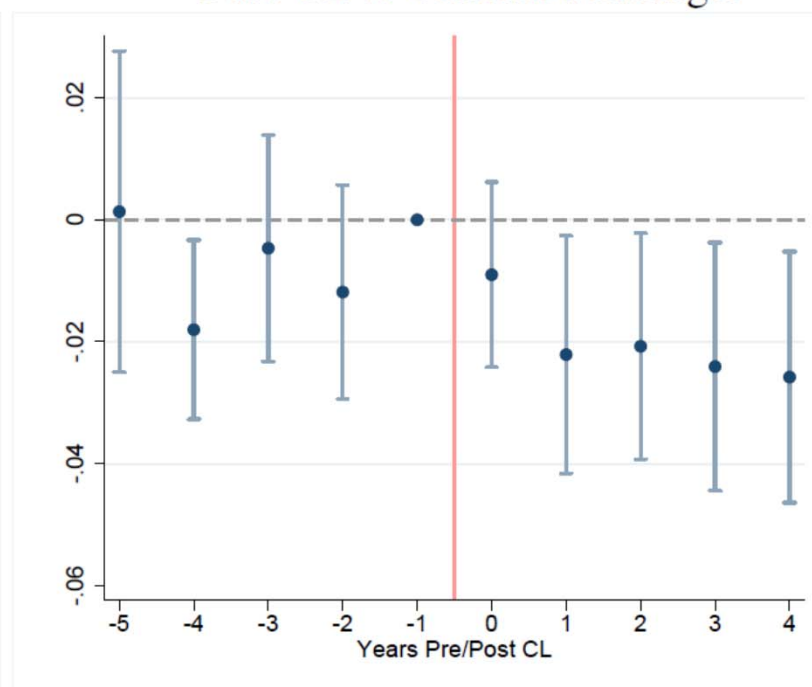


# News coverage in local newspapers in the US following entry by Craigslist

Post-CL



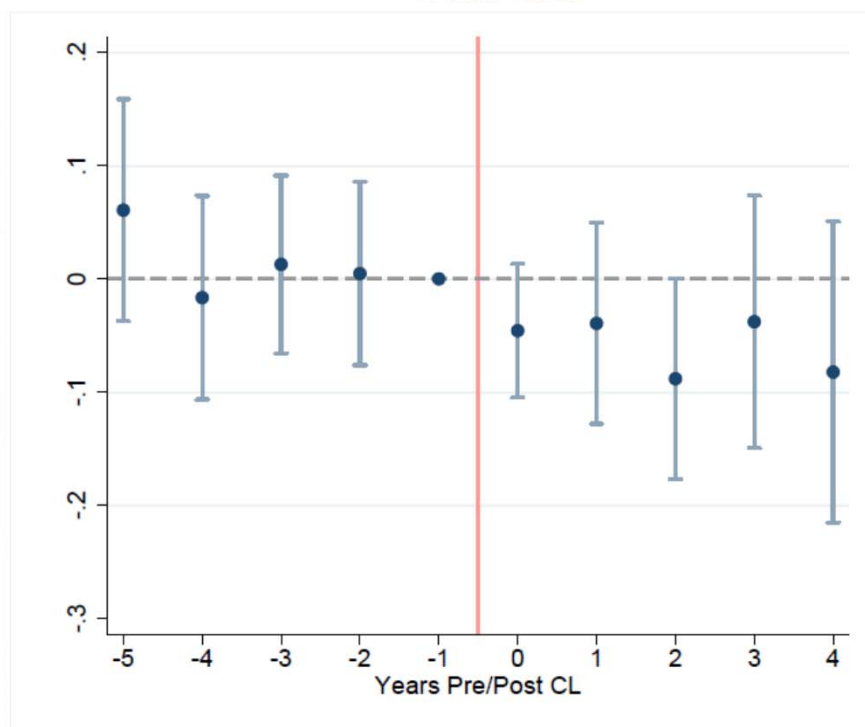
Post-CL  $\times$  Classified manager



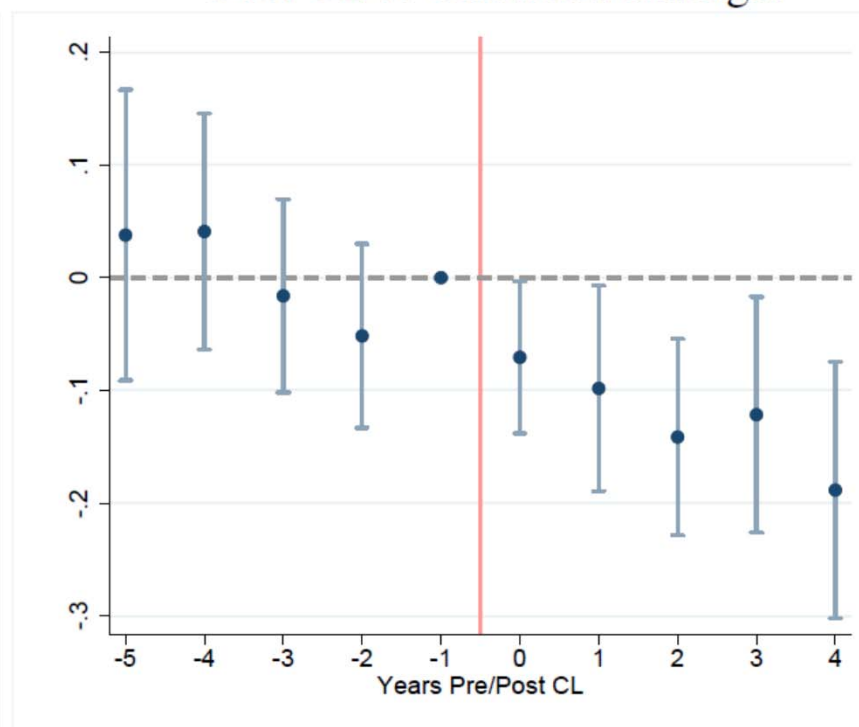


## News coverage of congressmen or candidates in local newspapers in the US following entry by Craigslist

Post-CL



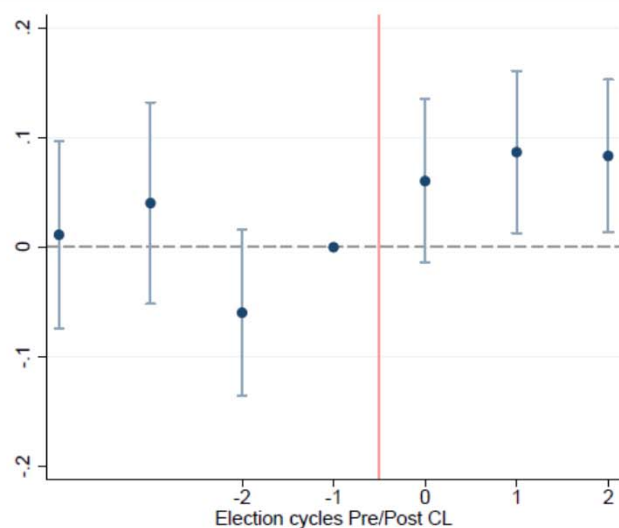
Post-CL  $\times$  Classified manager



# News coverage of extreme politicians in the US following entry by Craigslist

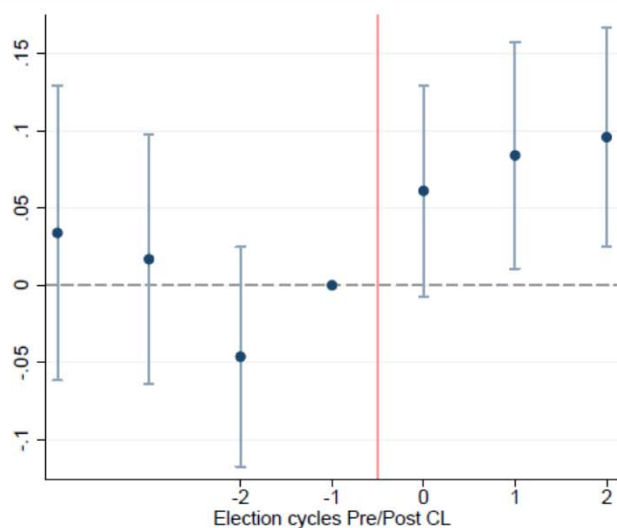
PANEL (A):

EXTREMIST IN PRIMARY ELECTION



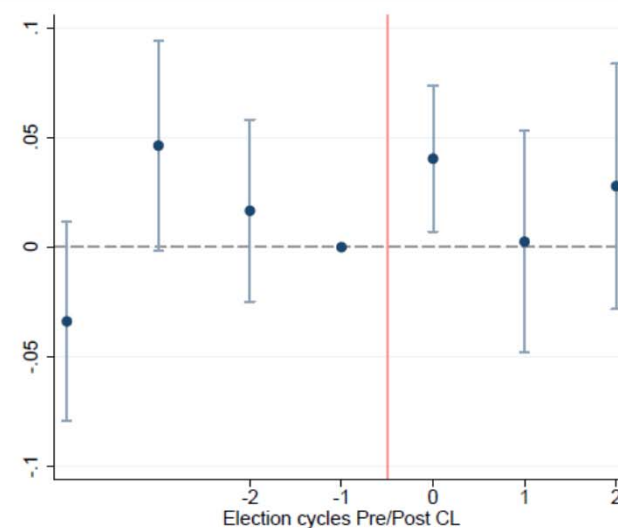
PANEL (B):

EXTREMIST IN GENERAL ELECTION



PANEL (C):

EXTREMIST WINS GENERAL ELECTION



# **Part and Valletti, *AEJ:* *Microeconomics* 2022**

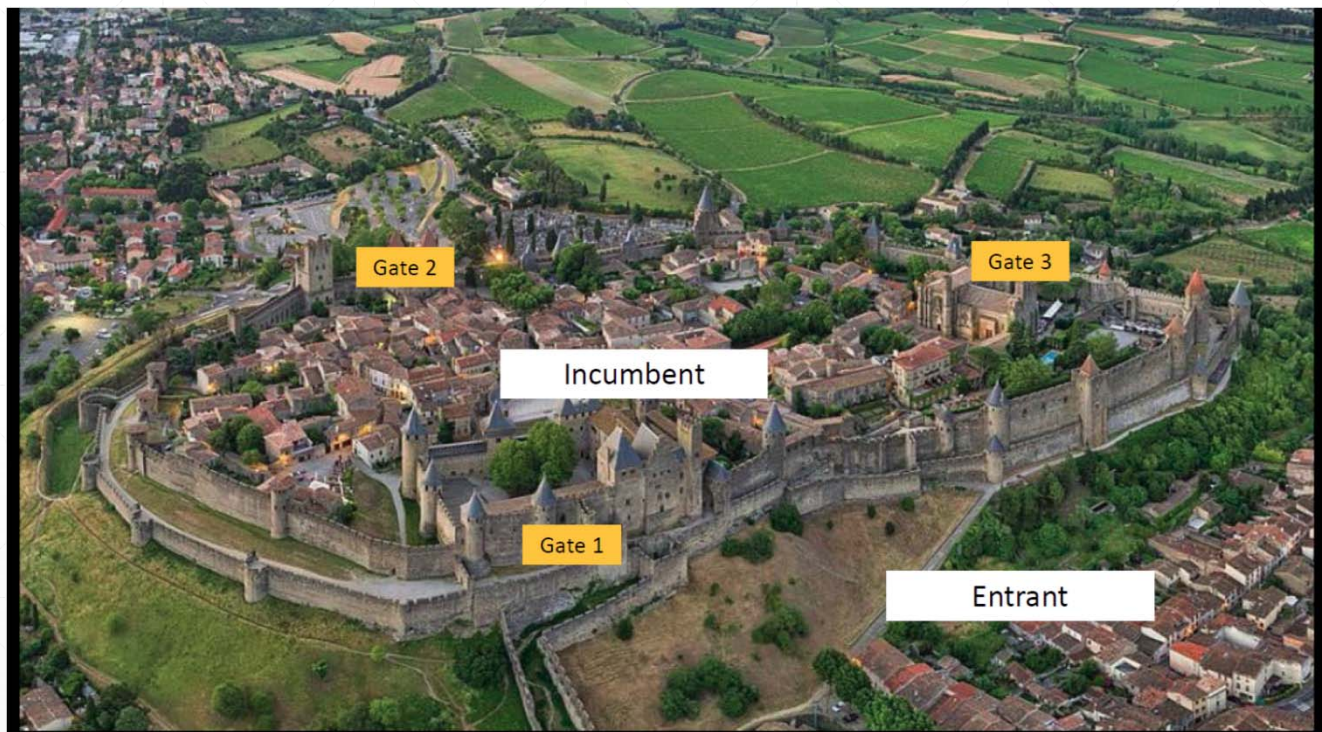
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**The effect of competition in media markets on competition in product markets**

# The market for attention

- Suppose that to enter a market, a firm needs to advertise
- Suppose the advertising space is limited
- Asymmetry: the entrant needs at least one advertising channel to penetrate the market; The dominant firm needs all of them to block entry

# The market for attention



# The market for attention

- If there is a large supply of advertising space, the dominant firm will need a lot of money to block entry  $\Rightarrow$  Without blocking entry the profit of the advertising channels will decrease
- "Democracy" in the advertising market makes it difficult to block entry and encourages competition in the product market
- Mergers in the advertising market facilitate the exclusion of competitors in the product market



# Neo-Brandeisians

- Lina Khan (2017): “Dominant corporations wield outsized influence over political processes and outcomes, be it through lobbying, financing elections, staffing government, funding research, or establishing systemic importance that they can leverage. They use these strategies to win favorable policies, further entrenching their dominance.”
- The U.S. 2023 merger guidelines rely on structural presumptions
  - A merger such that the post-merger HHI is above 1800 or one of the merging firms has market share of above 30% and raises HHI by more than 100 is presumed to give rise to an SLC
- Criticism of the "consumer welfare" criterion
  - The well-being of employees or suppliers is also important, perhaps more important than that of consumers
  - Low prices (especially in markets with a price of 0) do not necessarily indicate high consumer welfare
- Criticism of the criticism: It is not clear why a new paradigm is needed
  - Market power can be abused not only in the product market but also in the input market
  - It is well understood that what matters is the consumer's utility which depends on prices but also quality etc

## Bottom line

- It is worth thinking about the analogy between democracy and market competition/ antitrust



# Appendix

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# Freedom of choice

- Jonathan Kanter: The purpose of antitrust laws is to "guarantee that everyone participating in the open market—consumers, farmers, workers, or anyone else—has 'the free opportunity to choose among alternative offers.'"
- Should we focus on whether consumers have "freedom of choice"?
- If there is freedom of choice, there is no competitive problem even when there is a dominant firm
- In markets with a price of 0, you can check what happened to the consumer's freedom of choice as a measure of competitive damage