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Running Out of Options: The Threat of Declining Competition

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Kent Lundblad, 33 years old, tweeted his complaint last month to express his frustration with the two major internet providers in his hometown of Santa Rosa, California.

Lundbald was a longtime Comcast client, since it is the go-to internet service provider in that region, but after poor customer service, he switched to AT&T a few years ago. And now he is stuck with slower service with the new provider and throttling despite subscribing to the unlimited plan.

"I take my devices other places and sure enough they're faster there. So it's not my computers or my PlayStation 4," he said. "It's definitely the internet company throttling me because again I'm using too much data."

His experience isn't out of the ordinary. Frustration with phone and internet service companies is almost like a rite of passage now. No one bats an eye when people complain about these companies.

But the problem isn't just poor service. It's also about the inability to do much about it.

And that is a symptom of a bigger problem, which is declining competition in the country.

Overwhelming evidence suggests that competition in markets is dying and that can also lead to less innovation, lower product or service quality and lower worker pay.

"It is possible that as competition decreases economy wide, it can increase inequality as well as hurt wages," said Christopher Sagers, antitrust professor and senior fellow at American Antitrust Institute.

"If that is true then it's a double whammy for poor people."

Last year, a report on the telecommunications sector saying increased competition leads to better customer satisfaction was released by American Customer Satisfaction Index (ACSI).

For the past few years, people have rated this highly concentrated sector as the lowest rated on the ACSI survey. And within that sector, internet service provider industry got the worst reviews last year, though pay TV providers were not much better off.

But if the pay TV option isn't good, people can cut cord to subscription TV like Netflix, HBO Go and more. There are no options like that with bad internet service providers. The best one can do is switch to another company, if there is that option, and hope they are good.

The three largest of them, Comcast, AT&T and Time-Warner, in terms of market share, cover 50 % the internet service provider market.

"High-speed Internet access is a must-have in the digital age, making ISPs and wireless companies critical providers for the workplace as well as the home," said Claes Fornell, founder and chairman of ACSI. "With relatively few options, consumers have limited means for punishing companies for poor service."

Telecom industry is not the only one where customers have fewer options. It's a problem that exists across multiple industries and continues to grow. Go to your supermarket and it may look like you are bombarded by multiple choices but majority of the goods are owned by four to five major companies in markets ranging from chocolates, beer and toothpaste to eye wear.

Current Status of Competition

US industries have become more concentrated since the beginning of the 21st century. An index measuring concentration has systematically increased in over 75 percent of US industries, and the average increase in concentration levels has reached 90 percent, according to a recent paper.

The market share of the four largest firms in the each industry has significantly increased for most industries, the report states.

In case of breakfast cereals four firms control almost 80 percent of the sales. Last year, General Mills and Kellogg Co. brands owned eight out of the ten leading ready-to-eat cereals in the country.

But this information can seem just like trivia questions if the significance isn't clear, Patty Lovera, Assistant Director of Food & Water Watch said.

If we are supposed to vote with our dollars, what is a person supposed to do when there are only two options available for an item and both are bad? Lack of options for people forces them to participate in a rigged system, she explained.

"A lot of what's in the cereal aisle should be in the candy section," Lovera said. "Left with a few options, we buy what's there and it sends a message that that's what we voted for with our money."

Laughlin Bradley, 45, realized the lack of options when he decided to eat healthy cereal. Due to his family's history of diabetes, Bradley started reading the labels for sugar content before buying anything.

"I went through methodically, one by one, down the row of 'healthy choices' of cereals," he said. "I didn't find anything healthy that I wanted unfortunately."

And so he gave up after 15 minutes and bought oats instead. Now he eats Rice Chex.

"I wish there were more options," he said. "I like Rice Chex, but there are very few cereals that have any taste with that low of sugar and calories."

Having various brands that are all owned by the same firm also creates the illusion of different options where people can get bargain deals. Lovera explained, if General Mills owns 30 brands, they are going to keep all of them in mind while doing the pricing.

"Do those firms have an incentive to give me a better deal? No," she said. "Because they are competing with themselves and they don't have lot of incentive to provide savings for consumers."

But rising prices and inability to punish a company by buying from its competitor are just a few downfalls of increased consolidation in the market. And this trend has given rise to concerns about declining competition in the market place. Last year, the Obama administration released a brief saying we need more competition.

“The decades-long decline in new business formation and increases in industry-specific measures of concentration” are several indicators suggesting that competition in our market may be decreasing according to the brief.

Senator Elizabeth Warren gave an attention grabbing speech last summer on this issue said, “Anyone who loves markets knows that for markets to work, there has to be competition. But today, in America, competition is dying.”

Consolidation in Agribusiness

The seed industry is not new to consolidation. In 1996, there were around 600 independent companies whereas now there are only big six corporations that control around 60 percent of the global seed market.

But right now, that isn’t the biggest concern of farmers and advocacy groups. What they are trying to fight is that these big firms are trying to merge with each other and bring the number down to four.

Dow Chemicals is trying to merge with DuPont, Bayer AG with Monsanto and ChemChina with Syngenta.

Like all companies trying to merge, these also promise that the merger will produce lead to more cost cutting, efficiency and more research capacity. Dow has also promised that after the merger, it will split the giant into three separate companies and the result will be one American-based seed company.

These mergers have the support some antitrust experts who argue that since the markets of the companies do not overlap significantly, the merger won’t lead to the companies increasing their market share in their field.

Bayer has focused on herbicides in the agricultural space, whereas Monsanto has focused on seeds and genetic technology and the former has a strong presence in Europe and Asia, while the latter’s is in the Americas, Randy Gordon law professor specializing in antitrust at Texas A&M University, explained.

Many trade associations have spoken in favor of these mergers because they believe it will result in more money into research and technological innovation. And those are the two crucial as well as expensive aspects of modern day farming.

Companies look for ways to constantly keep improving yields and their consolidation in the past has resulted in newer technology which has done that, said Tom Bressner, executive director of Wisconsin AgriBusiness Association.

“Our technology cost is so high that if companies didn’t consolidate then we don’t know if we could afford so many products,” he said.

But opponents of these mergers say this perspective ignores the larger picture like the potential increases in price and reduction in diverse research.

Farmers are worried that this will lead to monopolistic pricing, where they will have to buy the products at whatever prices available because there aren’t many options. Just like our situation with internet service providers.

But an even more complicated and worrisome factor for them is that this will harm diversity of research and innovation, something that these merging companies tout as one of the main benefits of their union.

"These companies will of course do more research but they will focus only on the products that benefit them and their shareholders," Mark Watne, president of North Dakota Farmers Union, said.

To understand this concern better, consider the example of US automobile industry. Until recently, automobile giants like General Motors and Ford that dominated the American car manufacturing market did not see the need to mass-produce a car that did not use gas. Even as global warming was become as serious threat in the 1990s and transportation contributes around 13 percent of the total global greenhouse emissions.

But these companies could afford to not care about what cars did to the environment since they knew people would buy their car either way because there aren't many options. It wasn't until Tesla Motors came along and showed that people do care for electric cars and it is a profitable venture that all the major manufactures decided to invest in electric cars.

"Diversity of research is so important," said Watne. "So when people say the merger will lead to increased research dollars, that's true but it won't lead to research on products that are outside the realm of corporate profit."

Historically, when considering whether a merger should go through or not, the antitrust enforcement agencies focus on whether this union will lead to increased prices.

However, the agencies should be looking at whether a merger will harm future innovation by reduction in research, explained Michael Carrier, antitrust expert and law professor at Rutgers University.

"Innovation in the long run is more important and impactful than price," he said. "The focus has been on price which is easy and direct, but it should be innovation."

Aside from impact on innovation, there is an increasing debate that antitrust enforcement should also consider the merging company's market power.

A recent paper argues that large market power could be a significant reason behind increased income inequality and vigorous antitrust can help improve the economic imbalance.

Antitrust enforcement

Companies with increased market power are not the sole reason behind income inequality but a largely overlooked one, the recent paper by Lina Khan and Sandeep Vaheesan argues.

Aside from monopolistic pricing, excessive market power can be used to transfer wealth from the many to the few.

"Most wealthy American are the largest investors, so when consumers pay high prices and shareholders of a company benefit, it is going to a top segment of income scale," Khan said.

In addition to that, market power also gives firms a lot of power over politics through lobbying and donations, and can influence policies in their favor. The antitrust should take the bigger picture into account, Vaheesan said.

“Company with more money will spend more on lobbying,” he said. “Antitrust shouldn’t just be about prices, it should also be about decentralizing economic and political power.”

Many antitrust experts don’t share the same opinion. They attribute the link between increased economic inequality and lackluster antitrust of the past few decades as simply populist speak.

“Antitrust has nothing to do with income inequality,” said Barak Y. Orbach, law professor at Arizona University. “We are in a period of technological change. During industrial revolution, the same thing happened. And the same sentiment popped up.”

Another antitrust expert, William H. Page said that antitrust enforcement agencies should keep their eyes only on economic efficiencies.

“Fear of market power just as a political, populist concern, and not a common view held by antitrust scholars,” he said. “Economic efficiency should be the sole focus, if you look at anything else then you don’t have a good guide to decide where to devote resources.”

“You don’t want to have government supervision but rather have competition that will regulate the markets,” Page explained.

Though there is an increasing demand on antitrust enforcement agencies like the Department of Justice and Federal Trade Commission to be more rigorous considering the trend of consolidation doesn’t appear to be finished. Rather, the problem looks like it’s getting worse in the past few years.

In 2015, mergers took place at a record-breaking amount surpassing $2 trillion and was the best year for mergers. Last year was the second best. And this year there are quite a few mergers pending that worry people who want to see more competition, especially in the agricultural sector.

“Since 1970s there hasn’t been much difference between antitrust enforcement irrespective of the administration,” Sagers said.

Enforcement during President Obama’s period didn’t really increase as much, it’s just a substantial amount of mergers were proposed so a lot more were challenged, he said.

“The trend has been very clear, the agencies are only interested in challenging horizontal mergers that increase concentration significantly,” he said.

And it looks like President Trump’s business-friendly administration might continue on this path. After criticizing the AT&T-Time Warner merger during his campaign trail, the President has been silent about it after his election.

“Given the people that have been put in place, the closest comparison will be bush’s administration,” Sagers said. “Super competent, super conservative people who are not going to bring a challenge unless it is serious.”

Trump’s nominee for to lead the DOJ’s antitrust division, Makan Delrahim is a veteran lobbyist who once lobbied Congress on behalf of the Anthem-Cigna merger, according to Reuters.

“It’s too early to be sure but so far, the administration has been very friendly toward businesses,” said Lovera. “And we don’t know much about Delrahim but we don’t want someone who lobbied for Anthem’s merger to be leading antitrust.”

The National Farmers Union has urged the government not to approve the upcoming mergers in agribusiness space but does not believe it will be effective.

“There is a general pessimism about the government’s role in stepping in antitrust issues,” Barbara Patterson, government relations director at the organization said. “Unfortunately, there is widespread inertia and folks don’t feel they have much say.”