THE RACE TO OLIGOPOLY

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The recent significant increase in merger activity among the nation's large industrial corporations has become the subject of considerable concern. This article examines current developments in the merger area and appraises their effect upon the continuance of the competitive system. The authors view the implications of this merger trend against the backdrop of existing legislative controls, and posit guidelines for additional antitrust legislation to halt the "race to oligopoly."

THE MERGER FEVER

Merger fever is evident in all areas of American industry.¹ So frequently are corporate mergers occurring that it is unusual to scan the financial pages of a metropolitan newspaper without sighting an item announcing an impending or completed merger.² Not only are mergers

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¹ Compare FTC, QUARTERLY FINANCIAL REPORT FOR MANUFACTURING CORPORATIONS (1st Quarter 1961) with FTC, QUARTERLY FINANCIAL REPORT FOR MANUFACTURING CORPORATIONS (1st Quarter 1967).

increasing numerically, but the entire trend is beginning to resemble an octopus—stretching downward (vertical integration), upward (reverse vertical integration), sideways (horizontal integration) and variable in all directions (conglomerate integration).

The economic impact of the current merger movement on the status and future of small business in the United States cannot be minimized since the level of economic concentration in American industry has continued to rise at an ominous rate. For example, Dr. Willard F. Mueller, Director of the Bureau of Economics of the Federal Trade Commission, recently reported to the Senate Select Committee on Small Business that

> [over the period 1947-1963] the top 200 [manufacturing corporations] expanded their share [of total manufacturing assets] from 30 percent to 41 percent, or by over one-third. ... Since 1958 the rate of increase has been 0.6 percent a year. By 1963 the 100 largest held a greater share than was held by the 200 largest in 1947, and the 50 largest held a greater share than the 100 largest in 1947.4

Other FTC statistics indicate that between 1961 and 1967, corporations of one billion dollars in assets and over have increased their control of total assets of all manufacturing corporations from 28 percent to 38 percent. To the extent that these increasing concentrations of economic power continue apace, American industry is speeding dangerously down the road to oligopoly. It is not surprising, therefore, that there is substantial disquietude in both the press and Congress over the ever increasing number of mergers by big business.6

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6 A Washington Post editorial tells of the “Merger That Wasn’t” between the American Broadcasting Companies and the International Telephone and Telegraph Corporation. According to the Post, the fact that the proposed merger did not occur “represents an antitrust victory of the first magnitude .... A great deal of harm and virtually no good would have come from a consummated ITT-ABC merger.” Washington Post, Jan. 4, 1968, at 16a, col. 2.

In December, 1967, Senator Mike Mansfield urged the Senate Commerce Committee to investigate and halt a merger between the Great Northern; Northern Pacific; Chicago, Burlington and Quincy; Pacific Coast, Spokane, Portland and Seattle railroad lines which had been approved by the Interstate Commerce Commission, and another group of Senators was so disturbed by the Commission’s approval of this
IMPACT OF THE Celler-Kefauver ACT

The Celler-Kefauver amendment to section 7 of the Clayton Act has become a strong antimerger weapon of the FTC and the Department of Justice, the agencies primarily responsible for enforcement of the antitrust laws. The enactment of section 7 opened so vast an array of new legal horizons that it would be difficult to overemphasize its importance to the effort to stem the flood of corporate mergers.

Prior to the enactment of section 7, mergers could be attacked under the Sherman Act if their consequences resulted in a restraint of trade proscribed by that act, and divestiture was an appropriate remedy. The Supreme Court has interpreted section 7, however, as proscribing mergers even though their consequences may not attain the proportions of full-fledged Sherman Act violations, reasoning that the purpose and reach of the section was to stop the anticompetitive consequences that almost invariably succeed a merger of large enterprises in their incipiency. Moreover, the Court recognized "a duty ourselves to be sure" that an effective decree is fashioned.

The Supreme Court has also taken a broad approach to what constitutes a relevant geographical or product market in both free and regulated industries. A realistic and pragmatic test is utilized in both market situations, with virtually the same factors being applied to each. In Brown Shoe Company v. United States, for example, the Court explained merger that legislation, S. 2822, 90th Cong., 1st Sess. (1967), was introduced by Senator Lee Metcalf to "subject all not-yet-consummated railroad mergers, even those approved by the ICC, to the antitrust laws until new merger standards are enacted." BUREAU OF NATIONAL AFFAIRS, ANTITRUST AND TRADE REGULATION REPORT No. 336 (1967).

6 Id. at 327-30.
that the criteria for determining the appropriate geographic market "are essentially similar to those used to determine the relevant product market [and must] . . . correspond to the commercial realities of the situation."15 While stating that "[t]he outer boundaries of a product market are determined by the reasonable interchangeability of use or cross-elasticity of demand between the product itself and substitutes for it,"16 the Court held that

within this broad market . . . submarkets may exist which . . . constitute *product markets for antitrust purposes*. . . . The boundaries of such a submarket may be determined by examining such practical indicia as industry or public recognition of the submarket as a separate economic entity, the product's peculiar characteristics and uses, unique production facilities, distinct customers, distinct prices, sensitivity to price changes, and specialized vendors.17

Thus, in *United States v. Pabst Brewing Company*18 the Court was able to hold that the "probable effect of the merger on competition" was sufficient to fall within the prohibitions of section 7 in Wisconsin (where the merging companies accounted for 23.95 percent of product sales), in the three-state area of Wisconsin, Illinois and Michigan (where the merging companies accounted for 11.32 percent of product sales) and in the entire country (where the merging companies accounted for only 4.49 percent of product sales).19

Another Supreme Court decision lending support to the FTC in its battle to stem the merger tide is *FTC v. Dean Foods Corporation*.20 In that case it was held that a court of appeals may issue a preliminary injunction to prevent the consummation of a proposed merger upon a showing by the FTC that a remedial order would be virtually impossible once the merger was completed.21 The Department of Justice22 and private litigants,23 of course, are expressly authorized by the Celler-Kefauver Act to seek such injunctive relief in the United States district courts.

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15 Id. at 336.
16 Id. at 325.
17 Id. (emphasis supplied).
19 See id. at 551-52.
21 Id. at 605.
INADEQUACY OF PRESENT LAWS TO FORESTALL OLIGOPOLY AND PRESERVE COMPETITION AND SMALL BUSINESS

Despite the aid of the Celler-Kefauver Act and enlightened decisions by the Supreme Court, the efforts of government agencies to stem the increasingly high tidal wave of business mergers are woefully insufficient. Oligopoly injects multiple anticompetitive problems into our economy which may well be beyond the control capacity of those agencies charged with safeguarding the competitive system. Even the ancient, publicly condemned, per se anticompetitive practice of horizontal price fixing presents difficult litigation problems when practiced by those who reign over oligopolistic industrial empires. When control of a major industry is in the hands of a few it is easy to become sophisticated in avoiding the price-fixing pitfall. Thus, concrete evidence of the practice is difficult to obtain and enforcement agencies and private treble-damage action plaintiffs must wage their battle against horizontal price fixing on tenuous distinctions between "price fixing" and "price conformance," and the evidentiary weight of "conscious parallelism." For this reason even horizontal price fixing actions require protracted litigation, especially when they involve an oligopolistic empire. In some industries the problem of price fixing may even now be beyond the capacity of any agency or private litigant to handle effectively. The steel and automotive industries, for example, appear to be so oligopolistic and so sophisticated in circumventing the Sherman Act, that it has become necessary to deal with their pricing practices (and other practices involving the public interest) at the presidential or congressional level.

Oligopoly also assures the easy descent of vertical integration from the manufacturer to the ultimate consumer. When vertical integration is attempted by merger it can be challenged, of course, under section 7 of the Clayton Act. This method of attack, however, involves such difficult problems as whether or not the merger substantially affects competition or tends to create a monopoly, as well as definition of the relevant

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product or geographical market. And when franchising is the vehicle for vertical integration, section 7 is not even applicable, and the assailant must fall back on the Sherman Act. The Supreme Court, however, in *White Motor Company v. United States*, provided some answers concerning the limitations on franchise agreements. In essence, the Court held that when such agreements involve vertical (or horizontal) price fixing, they per se violate the Sherman Act. Yet the Court declined to rule on whether or not a vertical cartel arrangement constitutes a per se violation of the Act, although it had already held in *Timken Roller Bearing Company v. United States* that a horizontal cartel arrangement was such a violation. The Court's reluctance to reach a similar conclusion, as to vertical arrangements, probably resulted from the fact that the case had reached it based upon a summary judgment which presented only the "bare bones of the documentary evidence." Finally, when vertical integration is accomplished by the manufacturer establishing his own ultimate consumer outlets, the only practical weapon of attack is the monopoly provisions of section 2 of the Sherman Act. The number and complexity of the problems involved in such litigation is too well known to require citation of authority.

The peril to small business by vertical integration accomplished either by merger or direct vertical expansion is obvious. Indeed, one of the purposes of the Sherman Act was to provide a haven for small business. If left unchecked, oligopolistic industries could through vertical integration (either by merger or internal expansion) almost completely dislodge small business from our competitive system. Even if vertical integration is accomplished by franchising, when mammoth enterprises are involved a serious question often arises as to whether the franchisee (prima facie an independent business) is not in fact a captive middleman of the franchisor, since the balance of economic power is heavily weighed in favor

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27 See note 13 supra.
30 Id. at 263.
31 Id.
33 372 U.S. at 261.
of the latter. Oligopolistic enterprises, by coupling vertical integration with dual distribution, have the power to destroy the middleman, either by raising the middleman's prices or lowering prices to his competitors. That such practices have been of deep concern to middlemen is demonstrated by the protracted congressional hearings which have been held on this subject. It is difficult, however, to devise legislative remedies to protect intermediate distributors against the oppressive tactics of an oligopolistic industry short of a legislative proscription relating to business size. Legislation was introduced which is calculated to aid the middleman by controlling the prices of franchisors engaged in dual distribution. The ultimate result of such legislation, however, is to provide the government with authority to fix the prices of the franchisor; and government price fixing, except in regulatory areas clearly required in the public interest or during periods of extreme national emergency, is, in the author's opinion, inconsistent with a truly competitive economic system.

The growth of oligopolistic industries also results from the encompassing of lesser industries within the orbit of control, through either conglomerate acquisitions or interlocking directorates and management. The existence of economic empires of this type invites the exercise of the competitive advantages of reciprocity, and deceptive practices in an oligopolistic empire can be considerably more difficult to detect and combat. Ownership may change but brand names and company names may or may not, and the buying public may believe that different companies are waging a competitive war when such is not the case. Different brands of soap, for example, may appear to be competing, each huckster declaring that his soap will make clothes whiter and brighter, when in fact both "competitors" are owned by the same enterprise and the competition, if any, is intra-company. Similarly, a department store's private brand
To wage sufficient legal battles to stem the increasing flood of mergers now endangering our competitive system on the sophisticated lines delineated by our current antitrust laws appears to present an impossible task. The litigation required takes too long and the number of mergers are too many. This is true whether the battle is waged in the courts by the Department of Justice or a private litigant, or in an administrative proceeding of the FTC. The popular belief that the judicial process is awkward, slow and expensive, while the administrative process is fast and inexpensive, hardly holds true with respect to adjudicative administrative proceedings. Indeed, it is a debatable question whether or not the judicial process is speedier and more efficient in some areas (and in some courts) than a protracted administrative proceeding.

THE END RESULT OF OLIGOPOLY

Should oligopoly become substantially entrenched in basic American industry it might well spell the end of “the primacy of competition as the touchstone of economic regulation.” Oligopoly, accompanied as it almost invariably is with conglomerate tentacles and interlocking relationships, provides the oligopolistic economic empire with massive competitive advantages — advantages which work to exclude the “small” and “would be” competitor from our economic system, leaving the spoils to a few and depriving our economy of the efficiency generated by true competition. In short, if American industry were to become basically oligopolistic, we would have an economic system consisting substantially of monopoly control by private industry.

It is our belief that the American people would never politically tolerate such control. Absent effective antitrust legislation, they might be forced to choose between two evils: socialistic control of the means of production and distribution, or pervasive government regulation of the presently relatively free segment of industry. We believe that the average American desires neither; that his loyalty to a truly competitive economic system is not merely lip service. Yet without further aid from Congress our capitalistic system appears doomed to continue its present journey down the road to oligopoly.

41 See I K. DAVIS, ADMINISTRATIVE LAW TREATISE § 1.05, at 39 n.6 (1958).
MORE REGULATED INDUSTRIES NOT THE ANSWER

Before venturing suggestions concerning the type of legislation that may be helpful in stopping the race to oligopoly, we would like to call attention to the type of legislation which would not be helpful. We submit that our competitive system would not be aided, but to the contrary harmed, by entrusting antitrust problems to governmental agencies whose primary obligations and concerns are the supervision of government regulated industries. Nor would the extension of government regulatory supervision to the presently free, unregulated segments of our economy be helpful unless truly necessary to protect the public interest, for once an industry is regulated, it need no longer compete in such basic areas as prices and profits. It need only woo such plums from its regulatory agency, before which the public interest in the antitrust area is frequently neither adequately represented, nor ultimately protected. A recent example of this result comes to light in the Supreme Court's discussion of Section 5 of the Transportation Act.\(^44\)

The policy of Congress, set forth in the Transportation Act, to consolidate the railroads of this Nation into a limited number of systems is a variation from our traditional national policy, reflected in the antitrust laws, of insisting upon the primacy of competition as the touchstone of economic regulation. Competition is merely one consideration here.\(^45\)

Moreover, regulatory agencies have typically given short shrift to safeguarding such competition as could remain in industries under their supervision.

The Supreme Court, however, has shown that it will not relinquish its antitrust jurisdiction to an administrative agency unless the regulatory act is specifically pervasive.\(^46\) Nor will it expand legislative exemptions from the antitrust laws beyond their "plain coverage."\(^47\) In United States v. El Paso Natural Gas Company,\(^48\) for example, the Court struck down a


\(^{48}\) 376 U.S. 651 (1964).
merger which had the blessings of the Federal Power Commission. Holding that the FPC's jurisdiction was not pervasive, the Court ordered "divestiture without delay," reasoning that there is room for competition within regulated industries where there are "new increments of demand that may emerge with an expanding population . . . ." Cases such as *El Paso* indicate that it has indeed been well for our competitive system that the Supreme Court has guarded its antitrust jurisdiction so jealously.

**What Solutions?**

Many strong roadblocks may be necessary to halt American industry's current race to oligopoly. First, immediate stopgap legislation is needed to provide the FTC and the Department of Justice with prior knowledge of proposed mergers. Neither agency should have to depend upon the press for such knowledge. The FTC has pressed for such an enactment annually since 1964 and legislation dealing with this problem has now been introduced in Congress. Sterner congressional intervention, however, may ultimately be required if oligopolistic control of American industry is to be halted.

What congressional "guidelines" are needed to halt the race to oligopoly? Strong congressional mandates focusing on the size of economic enterprises appear inevitable if we are to preserve a competitive economy. While it is not the purpose of this article to compose or propose specific legislation, we do suggest that regulation along the following lines may be necessary to prevent oligopolistic control of major industries:

1. A specific limitation as to the "size" (economic assets) of any company, including its controlled subsidiaries. Opponents of such a proposal will, of course, protest with the time worn argument that size makes for greater efficiency. There is a wealth of economic authority, however, teaching that there is a point of

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49 See id. at 655, 662.
50 Id. at 662.
51 Id. at 660.
52 See FTC, ANNUAL REPORT FOR 1964, at 33 (1964); FTC, ANNUAL REPORT FOR 1965, at 35 (1965); FTC, ANNUAL REPORT FOR 1966, at 43 (1966); FTC, ANNUAL REPORT FOR 1967, at 73 (1967).
optimum scale after which efficiency decreases with additional increases in size.

2. The prohibition of vertical integration by any company of a certain size. The size limit for this purpose should perhaps be somewhat less than the general size limitation suggested above.

3. The prohibition of conglomerate acquisitions when the acquiring companies' assets would exceed a specified figure. We do not believe that it can be reasonably maintained that the ownership of conglomerate enterprises promotes efficiency.

4. The prohibition of interlocking management.

5. Legislation that the violation of trade regulation rules promulgated by the FTC shall constitute a prima facie case of anticompetitive conduct. Although the FTC has in effect announced guidelines with respect to vertical integration in the cement and food distribution industries, these policy announcements presently constitute no more than a warning to the industries involved. Even an FTC trade regulation rule promulgated after investigation, notice and hearings is not prima facie evidence of the facts found. However, the Commission's Rules of Practice do provide that it may rely on a trade regulation rule in an adjudicative proceeding to resolve a relevant issue, provided the respondent is given a fair hearing on the applicability of the rule to the particular case. Expansion of the authority afforded trade regulation rule could ease the difficult evidentiary problems.

The foregoing suggested congressional guidelines are not designed, of course, to supplant our present antitrust laws. Traditional antitrust legislation would continue to play a commanding role in many areas and industries not effected by the proposed guidelines. Moreover, the suggested legislation could not and should not be undertaken lightly, since difficult problems with transition periods, divestiture of existing oligopolistic economic empires (with concomitant constitutional questions) and exceptions in areas necessary for the national defense would be involved. Nevertheless, we believe that the overwhelming majority of

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65 FTC, Enforcement Policy with Respect to Vertical Mergers in the Cement Industry (1967).
the American people retain a solid faith that free competition — a system that has made America a beacon to those dismal countries of economic control — is still the world's most efficient economic system. Every housewife who can shop in an area of competing food markets knows well the advantages she reaps from competition. A competitive system produces the most for all and offers the highest reward to individual skill and effort. Thus we view askance the philosophy of a witness who testified before the Senate Small Business Committee that antitrust laws are "part of the American folklore" which should be allowed to wither away. If our competitive system is allowed to wither, it is predictable that so too will the economic power that surrounds America.