Dominant Firm Conduct: Lessons from Early Antitrust Enforcement

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DOJ/FTC Hearings on Single Firm Conduct and Antitrust Law

Overview

- First dominant firms arose out of Trust movement and merger to monopoly
- Comparative case studies on
  - Standard Oil
  - U.S. Steel
  - American Sugar Refining Corporation
- Lessons on dominant firm behavior and effect of antitrust prosecution and remedy.

Standard Oil

- An aggressive competitor.
- Supreme Court found Standard Oil guilty, ordered dissolution.
- Comanor and Scherer (1995) argue that dissolution improved long term industry performance.
- Dissolution of formerly independent entities aided success of remedy, Kovacic (1999).

United States Steel

- U.S. Steel a price umbrella for fringe firms, gradually lost market share
- Supreme Court found in favor of U.S. Steel.
- Dissolution would have lowered steel prices, Mullin, Mullin, and Mullin, 1995.
- US Steel's acquisition by long term lease of Hill iron ore properties viewed as anti-competitive by contemporary antitrust authorities.

U.S. Steel Enforcement Lessons

- Antitrust law protects competition, not competitors.
- Supreme Court's 1920 acquittal seemed influenced by competitor praise.
- New contractual arrangements may have efficiency motivations.
- Hill ore lease best explained as efficiency enhancing rather than vertical foreclosure, Mullin and Mullin, 1997.

American Sugar Refining Corporation

- Profitably engaged in predatory pricing, Genesove and Mullin, 2006.
- Department of Justice prosecution resulted in a consent decree.
- Antitrust serves as a deterrent
- Government victories in American Tobacco and Standard Oil cases helped induce partial "voluntary" divestiture.