Business

Competition Is Dying, and Taking Capitalism With It

We need a revolution to cast off monopolies and restore entrepreneurial freedom. First of two excerpts from "The Myth of Capitalism."

By Jonathan Tepper

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Just take the airlines, for example. *Photographer: David McNew/Getty Images*

On April 9, 2017, police officers from Chicago's O'Hare Airport removed Dr. David Dao from United Express Flight 3411. The flight was overbooked, but he refused to give up his seat. He had patients to treat the next day.

Fellow passengers recorded a video of him being dragged off the plane. You could hear gasps of disbelief from fellow passengers: "Oh, my god!" "No! This is wrong." "Look at what you did to him." No one could believe what they were seeing. In the video he could be seen bleeding from the mouth as police dragged him down the aisle. The video quickly went viral.

United's CEO, however, did not apologize and instead blamed the passenger for being belligerent. Eventually, the outrage was so great that the CEO apologized and the airline reached an undisclosed settlement with Dr. Dao. Dr. Dao's lawyer Thomas Demetrio told journalists that Dr. Dao "left Vietnam in 1975 when Saigon fell and he was on a boat and he said he was terrified. He said that being dragged down the aisle was more horrifying and harrowing than what he experienced when leaving Vietnam."

Years ago, such a public relations disaster would have caused United's stock to stumble, but it quickly recovered. Financial analysts agreed that it would have no effect on the airline. For all of 2016, the company reported full-year net income of $2.3 billion.

The results were so good that in 2016 United's board approved a stock buyback of $2 billion, which is the financial equivalent of spraying yourself with champagne. Research analysts dismissed the incident, saying "consumers might not have much choice but to fly UAL due to airline consolidation, which has reduced competition over most routes."

Online news sites helpfully explained what had happened with headlines like, "Airlines Can Treat You Like Garbage Because They Are an Oligopoly." Once investors started focusing on United's dominant market position, the stock price in fact went up.

The analysts were right. The American skies have gone from an open market with many competing airlines to a cozy oligopoly with four major airlines.

To say that there are four major airlines overstates the true level of competition. Most U.S. airlines dominate a local hub, unironically known as "fortress hubs," where they face little competition and have a near monopoly. They have the landing slots, and they are willing to engage in predatory pricing to keep out any new entrants. At 40 of the 100 largest U.S. airports, a single airline controls a majority of the market.

United, for example, dominates many of the country's largest airports. In Houston, United has around a 60 percent market share, in Newark 51 percent, in Washington Dulles 43 percent, in San Francisco 38 percent and in Chicago 31 percent. This situation is even more skewed for other airlines. For example, Delta has an 80 percent market share in Atlanta. For many routes, you simply have no choice.

The episode became a metaphor for American capitalism in the 21st century. A highly profitable company had bloodied a consumer, and it didn't matter because consumers have no choice.

Competition is the essence of capitalism, yet it is dying.

Rising market power by dominant firms has created less competition, lower investment in the real economy, lower productivity, less economic dynamism with fewer startups, higher prices for dominant firms, lower wages and more wealth inequality. The evidence from economic studies is pouring in like a flood.

If you believe in competitive free markets, you should be very concerned. If you believe in fair play and hate cronyism, you should be worried. With fake capitalism CEOs cozy up to regulators to get the kind of rules they want and donate to get the laws they desire. Larger companies get larger, while the small disappear, and the consumer and worker are left with no choice.

Freedom is essential to capitalism. It is not surprising then that Milton Friedman picked "Free to Choose" as the title of his extremely popular PBS series on capitalism, and "Capitalism and Freedom" was the title of his book that sold over 1.5 million copies. He argued that economic freedom was "a necessary condition for political freedom."

"Free to Choose" sounds great. Yet Americans are not free to choose.

In industry after industry, they can only purchase from local monopolies or oligopolies that can tacitly collude. The U.S. now has many industries with only three or four competitors controlling entire markets. Since the early 1980s, market concentration has increased severely. We've already described the airline industry. Here are other examples:

- Two corporations control 90 percent of the beer Americans drink.
- Five banks control about half of the nation's banking assets.
- Many states have health insurance markets where the top two insurers have an 80 percent to 90 percent market share. For example, in Alabama one company, Blue Cross Blue Shield, has an 84 percent market share and in Hawaii it has 65 percent market share.
- When it comes to high-speed Internet access, almost all markets are local monopolies; over 75 percent of households have no choice with only one provider.
- Four players control the entire U.S. beef market and have carved up the country.

> After two mergers this year, three companies will control 70 percent of the world's pesticide market and 80 percent of the U.S. corn-seed market.

The list of industries with dominant players is endless. It gets even worse when you look at the world of technology. Laws are outdated to deal with the extreme winner-takes-all dynamics online. Google completely dominates internet searches with an almost 90 percent market share. Facebook has an almost 80 percent share of social networks. Both have a duopoly in advertising with no credible competition or regulation.

Amazon is crushing retailers and faces conflicts of interest as both the dominant e-commerce seller and the leading online platform for third-party sellers. It can determine what products can and cannot sell on its platform, and it competes with any customer that encounters success.

Apple's iPhone and Google's Android completely control the mobile app market in a duopoly, and they determine whether businesses can reach their customers and on what terms. Existing laws were not even written with digital platforms in mind.

So far, these platforms appear to be benign dictators, but they are dictators nonetheless.

It was not always like this. Without almost any public debate, industries have now become much more concentrated than they were 30 and even 40 years ago. As economist Gustavo Grullon has noted, the "nature of U.S. product markets has undergone a structural shift that has weakened competition."

The federal government has done little to prevent this concentration, and in fact has done much to encourage it. Broken markets create broken politics. Economic and political power is becoming concentrated in the hands of distant monopolists.

The stronger companies become, the greater their stranglehold on regulators and legislators becomes via the political process. This is not the essence of capitalism.

Capitalism is a game where competitors play by rules on which everyone agrees. The government is the referee, and just as you need a referee and a set of agreed rules for a good basketball game, you need rules to promote competition in the economy.

Left to their own devices, firms will use any available means to crush their rivals. Today, the state, as referee, has not enforced rules that would increase competition, and through regulatory capture has created rules that limit competition.

Workers have helped create vast wealth for corporations, yet wages barely kept up with the growth in productivity and profits. The reason for the large gap is clear. Economic power has shifted into the hands of companies. Income and wealth inequality have increased as companies have captured more and more of the economic pie.

Most workers own no shares and have barely benefited from record corporate profits. As G.K. Chesterton observed, "Too much capitalism does not mean too many capitalists, but too few capitalists."

When the left and right speak of capitalism today, they are telling stories about an imaginary state. The unbridled, competitive free markets that the right cherishes don't exist today. The left attacks the grotesque capitalism we see today, as if that were the true manifestation of the essence of capitalism rather than the distorted version it has become.

In 1776 Adam Smith wrote "The Wealth of Nations," and the American Continental Congress declared independence from Britain. Smith complained bitterly about monopolies. He wrote of the East India Company: "… the monopoly which our manufacturers have obtained … has so much increased the number of some particular tribes of them, that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature."

Among the reasons the Continental Congress cited for separating from Britain in the Declaration of Independence was, "For cutting off our Trade with all parts of the world: For imposing Taxes on us without our Consent." The Boston Tea Party was in response to the East India Company's monopoly on tea.

"The Wealth of Nations" and the Declaration of Independence were bold statements against the abuses of monopoly power. Americans wanted entrepreneurial freedom to build businesses in a free market.

Today, we need a new revolution to cast off monopolies and restore free trade.

(This is the first of two excerpts from "The Myth of Capitalism: Monopolies and the Death of Competition." Read part two here.)

(In the ninth paragraph, deletes an erroneous reference to Delta's market share.)

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