Hearing: A Second Gilded Age: How Concentrated Corporate Power Undermines Shared Prosperity

Testimony before the
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Joint Economic Committee

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Good afternoon Chairman Beyer, Ranking Member Lee, and Members of the Committee. Thank you for holding this important hearing and inviting me to participate. My name is Stacy Mitchell. I am the co-director of the Institute for Local Self-Reliance (ILSR), a national research and policy organization founded in 1974 with a mission to challenge concentrated power and foster thriving local communities.

What’s Killing America’s Independent Businesses?

More than a decade ago, I started an initiative within the organization focused on independent business. The goal was to study the question of why small and independent businesses have been disappearing across much of our economy. Small businesses have been declining at startling rates. In the 1980s businesses with fewer than 100 employees accounted for 40 percent of all business revenue nationwide. Today their share has fallen to about 20 percent.\(^1\) Although this decline has been underway for some time, it’s accelerated dramatically in the last decade. In the space of a few years, the United States has lost tens of thousands of independent retailers, distributors, manufacturers, and more.\(^2\)

The problem isn’t just that existing businesses are failing; it’s also that fewer new businesses are forming. Prior to the pandemic, the startup rate had fallen sharply nationwide. In 2018, more businesses closed than were started in America – the first time on record that has happened during a period of economic expansion.\(^3\)

The story we’ve long told ourselves about the decline of small businesses is that they can’t compete. We assume that large corporations are inherently better and more effective, that they operate more efficiently, that they produce superior products and services. We assume that the giant corporations that dominate our economy are simply winning the competitive fight.

But research by my organization and the work of other scholars has found that in many sectors, independent businesses outperform their bigger rivals, delivering better services, cheaper prices, and more innovation.\(^4\) What’s more, we find that independent businesses perform vital functions within their industries and communities that big companies are simply unable match.\(^5\)

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\(^1\) ILSR calculation based on U.S. Economic Census data.
\(^2\) Between 2007 and 2017, the number of small retailers fell by 65,000, and about 40 percent of the nation’s small apparel, toy, and sporting goods makers disappeared. ILSR calculation based on U.S. Economic Census data.
\(^3\) “Dynamism diagnostics: Five observations from the latest data,” Kenan Fikri, Economic Innovation Group, October 1, 2020.
Independent businesses are disappearing not because they can’t compete; they are, in fact, well-equipped to do so. The real issue is that we have made a series of policy choices that have doomed them. In particular, we abandoned our anti-monopoly policies. This has allowed a few corporations to amass extraordinary market power and wield it with impunity. Rather than compete on the merits, these dominant firms have used their financial muscle and control over key chokepoints in the distribution system to exclude and crush their smaller rivals.

Concentrated market power is the leading threat to independent businesses. This is what our research has found. It’s also what business owners across the country have been telling us for years. I’d like to share a few of their stories with you.

Seven years ago, Ben Okafor, a pharmacist and immigrant from Nigeria, opened Family Pharmacy in the town of Eastport, in a rural region of Maine. It was the first pharmacy to operate in the area for more than a decade. Before then, residents had to drive 40 minutes each way to pick up a prescription. Family Pharmacy is beloved by the community; most days Okafor is so busy that he and his staff barely have time to answer the phone. According to Consumer Reports, independent pharmacies like Okafor’s provide lower prices and better health care than the chains. Yet Okafor worries that he’s going to be driven out of business. He’s watched as CVS and other powerful pharmacy conglomerates have used their control over prescription drug reimbursement rates to self-deal and force independent pharmacies out of the market. Okafor worries Family Pharmacy could be next.6

On the south side of Chicago, Bob Jensen owned and operated the award-winning Argus Brewery for years before the pandemic’s shutdown of restaurants forced him out of business. But the pandemic was merely the final straw; long before then, the exclusionary actions of distributors controlled by Anheuser-Busch and Molson Coors made it nearly impossible for Jensen to get his beers on store shelves and bar taps around the region. These anti-competitive tactics are a main reason that, despite the popularity of craft brews, Anheuser-Busch and Molson Coors still capture 65 percent of the U.S. beer market.7

Jimmy Wright has around 35 people working at his grocery store, Wright’s Market, in Opelika, Alabama, where it’s served local residents since the early 1970s and today has hundreds of 5-star ratings on Google. But despite its high marks with customers, Wright’s Market faces an uncertain future. Walmart and other big chains have been using their clout as major buyers to demand special discounts and terms from suppliers. Wright’s can’t access these deals and instead faces even higher prices as suppliers make up their lost margin by charging stores like his even

7 “Break Up Budweiser,” Ron Knox, Slate, July 9, 2020
more. He wants to compete, Wright says, but it’s not easy when the big chain stores don’t have to play by the same rules.8

In 2014, Doug Mrdeza, a former barber in Michigan, launched a business selling hair products online. Three years ago when his business, Top Shelf Brands, hit Inc. magazine’s list of America’s fastest growing companies, Mrdeza said it was “like living the dream.” Today, Mrdeza has had to lay off nearly all of his employees. Like most businesses that sell online, Amazon’s dominance of the online market means that Mrdeza depends on Amazon for 90 percent of his sales. That dependence has allowed Amazon to ratchet up the fees it charges sellers like Mrdeza. Between commission fees and the growing number of services, such as advertising, that Amazon compels Mrdeza to buy, nearly half of every dollar Top Shelf Brands earns now goes to Amazon. 9 These growing fees had largely capsized Mrdeza’s business. Then last year, Amazon abruptly suspended his selling account and forced him into a lengthy arbitration process just to recover his inventory.

As these stories show, America has a monopoly problem. And the harm extends far beyond the many entrepreneurs who’ve seen their dreams and livelihoods destroyed. The decline of competition has rendered the U.S. economy less dynamic and innovative, and less able to thrive globally.

Market concentration is also fueling our nation’s increasingly extreme inequality, which in turn is destabilizing our families, communities, and democracy. As small businesses and startups disappear, dominant corporations have more leverage over workers. According to an extensive body of scholarship, they have used that leverage to push down wages and impose grueling and even dangerous working conditions.10

Consolidation of our markets has also led to vast inequality between regions. The Big Tech giants have concentrated high-paying jobs in a handful of metro areas. Meanwhile many of the independent businesses and mid-sized companies that anchored cities like St Louis and Columbus have closed their doors or been swallowed up by mergers. The situation is even more dire across much of rural America, where locally owned businesses have shuttered and family farms and ranches have fallen victim to the predations of agribusiness giants.11

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Most concerning of all, corporate concentration has exacerbated racial injustice. The ability of dominant corporations to abuse and exclude small businesses has made the already steep barriers faced by Black entrepreneurs all but insurmountable. As a consequence, there are fewer Black-owned businesses today than there were in the 1970s. At the same time, Black and brown communities have been on the losing end of worsening employment conditions, as dominant corporations, such as Amazon and Smithfield, have used their market power to push down wages in warehousing, package delivery, meatpacking, and other industries that employ large numbers of people of color.

The Policy Roots of America’s Monopoly Crisis

The roots of this crisis can be traced to the 1970s and 1980s, when both the Democratic and Republican parties abandoned anti-monopoly as a bedrock of their economic policies and instead embraced consolidation. It’s hard to overstate how radical this reversal was. For decades, Americans had relied on our antitrust laws to ensure fair and open markets for entrepreneurs and workers, extend prosperity to every corner of the country, and act as check on concentrations of private power that could threaten our liberty and democracy.

But 40 years ago, under the influence of thinkers like Robert Bork and Richard Posner, the antitrust agencies and ultimately the Supreme Court abandoned these goals and instituted a new ideological framework to guide antitrust enforcement. This framework made maximizing efficiency the goal of antitrust policy. It became known as the “consumer welfare” standard.

It sounds benign, even beneficial, but embedded within this approach are several dubious assumptions that have blinded and enfeebled antitrust enforcement. One is that bigger corporations are naturally more efficient and superior, and therefore enforcers and judges should look favorably on consolidation. Another is that blatantly anticompetitive market structures and tactics are perfectly fine as long as there’s a plausible case that they benefit consumers. As a consequence, we now have decades of case law that allows corporations to amass monopoly power and wield it against their smaller competitors so long as they do it under the guise of consumer benefit.

This court-made law directly contradicts Congress’s intent in enacting the antitrust laws. It has also left Americans demonstrably worse off. In the name of benefitting people as consumers, monopolists have been allowed to bully, coerce, and steal from them as producers — as suppliers, creators, farmers, workers, and entrepreneurs. The consumer welfare standard has also, rather ironically, done a poor job of protecting people’s interests as consumers. We have ample evidence today that the complex and supposedly predictive economic modeling that underpins

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the consumer welfare standard is deeply flawed. In a retrospective study of mergers approved by the antitrust agencies, John Kwoka, an economist at Northeastern University, found that in about three-quarters of these mergers, prices rose after the merger, rather than fall as predicted.\textsuperscript{13}

I’d like to highlight three ways in particular that the current approach to antitrust enforcement has undercut the ability of independent businesses to compete — no matter how great their ideas, how efficient their operations, or how hard they work.

**First, under the current antitrust doctrine, large corporations are allowed to use their size and financial might to crush smaller businesses and take market share without having to compete for it.**

We see this when big retailers like Walmart use their leverage as major buyers of goods to coerce suppliers into giving them discounts while raising the prices that their smaller competitors must pay for the same items. This violates the 1936 Robinson-Patman Act, but under the consumer welfare framework, the enforcement agencies stopped enforcing the law more than 30 years ago. Today, Walmart controls much of our food system. In 43 metropolitan areas and 160 smaller markets, Walmart captures more than 50 percent of grocery sales. In 38 of these regions, Walmart’s share of the grocery market is 70 percent or more.\textsuperscript{14} As a consequence, many small, family-owned grocery retailers have gone under. These closures have been particularly devastating in Black neighborhoods and small rural towns, many of which no longer have a grocery store at all. Moreover, research has shown that when only a few big buyers dominate an industry, it reduces the income of production workers all the way up the supply chain.\textsuperscript{15}

Another way that large, highly capitalized corporations can bankrupt smaller competitors is through predatory pricing. This involves selling goods or services below cost for a sustained period in order to eliminate competition. In the 20\textsuperscript{th} century, Congress repeatedly recognized and legislated against predatory pricing, and for decades, such behavior drew antitrust enforcement action. But, in a series of rulings in the 1980s and 1990s, the Supreme Court took a favorable view of the tactic and adopted a narrow “recoupment” standard that effectively made predatory pricing legal.\textsuperscript{16}

This opened the way for companies with deep ties to Wall Street, including most notably Amazon, to use predatory pricing to systematically bankrupt competitors and take market share.


During its first six years, Amazon lost more than $3 billion selling books below cost, driving rivals out of business. Amazon now accounts for more than half of U.S. book sales. Similarly, when Amazon faced competition from upstart online retailers, including Zappos and Diapers.com, it responded by losing hundreds of millions of dollars selling shoes and diapers at a loss. It worked: unable to sustain financial losses of that magnitude without going bankrupt, both Diapers.com and Zappos agreed to be acquired by Amazon. Amazon still uses this tactic today. Analysts have reported, for example, that it loses significant amounts of money on its new same-day shipping service, to the detriment of neighborhood convenience stores that lack similar backing from Wall Street. It has lost as much as $700 million a year on Prime Video to keep shoppers locked into its Prime ecosystem. Indeed, given Amazon’s ability to cross-subsidize such losses from its cloud computing division and other business lines, as well as its Wall Street backing, there’s no end to the industries that it can take over through predatory pricing.

Second, the current antitrust doctrine has allowed powerful corporations to vertically integrate, gaining control over multiple levels of the supply chain, which enables them to impose increased costs and structural barriers on their small competitors. One striking example are pharmacy benefit management companies (PBMs), which contract with health insurers to set rules for prescription benefits, including how much pharmacies are reimbursed for filling prescriptions. Three PBMs control more than 70 percent of the market. All three, including the largest, CVS Health, are vertically integrated companies that own their own retail and mail order pharmacies. Not surprisingly, CVS and the other PBMs have been slashing reimbursement rates to independent pharmacies. In some states, CVS even restricts people with certain insurance plans from choosing an independent pharmacy. As newspapers across the country have documented, these predatory practices are forcing many independent pharmacies out of business.

Similarly, two years ago, the antitrust agencies allowed Staples to buy one of only two wholesalers that supply independent office supply dealers, forcing them to share data and revenue with their biggest competitor. Or consider the dominant meat processor Tyson Foods,

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which has completed more than two dozen mergers, allowing it to gain control of nearly every step in the meat production process, from raising livestock to delivering packaged products to stores. Tyson’s vertical integration has hurt small farmers and has gutted the independent business ecosystem that existed to serve agriculture markets in small towns and other rural communities.\textsuperscript{22}

Powerful corporations can also achieve these same ends through exclusionary contracts with other companies in the supply chain, as Anheuser-Busch and Molson Coors have done by inserting terms in their contracts with beer distributors that block smaller breweries from getting space on store shelves.\textsuperscript{23} Although these kinds of exclusionary arrangements by dominant corporations clearly harm competition and put independent businesses at a structural disadvantage, under the current antitrust framework, they are generally accepted by enforcers and the courts on the assumption that they reduce costs for the dominant firm and therefore count as “efficiencies.”

Third, and finally, the current approach to antitrust has blinded enforcers and the courts to the dangerous monopolization of our online markets. A few tech giants mediate and control the exchange of goods, services, and information in our digital markets. These powerful gatekeepers not only control market access, but also directly compete with the businesses that depend on them. Their extraordinary power constitutes the single biggest threat facing the nation’s independent retailers, manufacturers, consumer brands, service providers, and other small businesses across scores of industries.

In the case of Amazon, more than two-thirds of online shoppers begin their product search on Amazon, and its site captures about 50 percent of online spending in the U.S.\textsuperscript{24} This dominance allows Amazon to function as a gatekeeper: retailers and brands must sell on its site to reach much of the online market. This dependence is risky and leaves many businesses living in fear of arbitrary or retaliatory behavior by Amazon; changes to Amazon’s search algorithms or selling terms can cause their sales to evaporate overnight.\textsuperscript{25}

\textsuperscript{25} House Investigation at 74.
Worse, Amazon uses its power as a gatekeeper to bully and exploit the businesses selling on its site. It has spied on sellers, appropriated their data, and then used this information to copy their best-selling products, giving its knock-off versions superior placement in the search results.\(^\text{26}\)

By imposing more and higher fees on sellers, Amazon also pockets a growing share of the revenue that sellers generate. Amazon keeps an average of 30 percent of each sale businesses make on its site, up from 19 percent in 2014.\(^\text{27}\) Last year Amazon netted $90 billion in fees from sellers, twice the revenue of AWS, its enormous cloud computing division.\(^\text{28}\) These high fees make it nearly impossible to sustain a profitable business. As a result, “the vast majority of those who start selling on Amazon’s site fail within a few years.”\(^\text{29}\)

On top of this, Amazon often abruptly suspends sellers’ accounts and seizes their inventory, shutting down their livelihoods overnight. Sellers have only limited recourse: Amazon’s terms of service deny them access to the courts.\(^\text{30}\)

For many independent businesses, Amazon’s whims and dictates are now the law of the land. They’re as subordinate to tech giant as any feudal peasant once was to the lord of the manner. Aware of Amazon’s long history of aggressively retaliating against companies that publicly challenge it, many businesses, both small and large, are too afraid to speak up.

If Congress does not act to check Amazon’s power, you are allowing Amazon to function as a kind of autocracy — a private government that regulates the nation’s commerce, rules over those who engage in it, and punishes anyone who dares to speak against it.

**Congress’s Urgent Task**

Last Friday, President Biden said, “We’re now 40 years into the experiment of letting giant corporations accumulate more and more power. And what have we gotten from it? Less growth, weakened investment, fewer small businesses. Too many Americans who feel left behind…. I believe the experiment failed.”

He is not alone. Most Americans, including, according to polls, most Democrats and Republicans, share that view. And within Congress, there is a rapidly growing understanding that we have a monopoly crisis that calls for decisive and urgent action. Senator Klobuchar has

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\(^{28}\) ILSR calculation from Amazon’s 10-K filings and data from eMarketer.

\(^{29}\) “Amazon’s Monopoly Tollbooth,” Stacy Mitchell, Ron Knox and Zach Freed, ILSR, July 28, 2020;

introduced important legislation to reinvigorate our antitrust policies, and the House Judiciary Committee has passed an excellent set of bipartisan bills that to break up the Big Tech companies and require their platforms to adhere to rules of fair dealing.

It’s crucial that Congress act. While there is much that the Federal Trade Commission and Department of Justice can and should do, as I’ve noted, the agencies are hamstrung by decades of judicial re-writing of the antitrust laws, rendering our enforcement tools so distorted and limited that enforcers cannot tackle the depth of the market concentration problem we face or alleviate many of the harms we’re seeing. This is particularly true in our digital markets, where the monopoly power of the tech giants is so sweeping and entrenched that the narrow cases available to enforcers are unlikely to solve the underlying structural issues and, in any case, would take many years to carry out.

I’d like to urge you to take five steps.

1. **Pass the Big Tech bills**

First, I urge you to support and prioritize the Big Tech legislation coming out of the House Judiciary Committee. The most important measure in the package is the structural separation bill, which would break up these companies by barring them from both owning a dominant digital platform and operating a business that sell goods and services on that platform. This is a basic and longstanding principle of anti-monopoly policy in the United States: Any firm that provides critical infrastructure to other firms should not compete with its customers. It’s the reason that, in the National Bank Act of 1864, Congress barred banks from owning industrial and commercial enterprises. It’s the reason that Congress blocked railroad companies from carrying products that they had produced or manufactured. Structural separation rules have also been adopted for both the telecommunications and television industries.

Amazon’s business model creates a fundamental conflict of interest. For small businesses, Amazon is both a gatekeeper that they must rely on to reach online shoppers and an aggressive competitor selling its own goods and services to those same shoppers. Unless lawmakers eliminate this conflict of interest through structural separation, Amazon will continue to have an overwhelming incentive and ample opportunity to use its gatekeeper power to preference its own interests while exploiting and undermining smaller competitors.

Passing a structural separation bill would end Amazon’s documented history of self-dealing and force the newly-spun-off companies created by the breakup to actually compete on price and quality against innovative startups. Without passage of the structural separation bill, Amazon will continue to leverage the market power and data gleaned from its dominant platforms to take
over one industry after another. Amazon has already used its platform power to make major inroads into pivotal sectors such as consumer products, logistics, healthcare, and finance.

2. Clarify the intent of the antitrust laws

Second, Congress must reaffirm that the intent of the antitrust laws is to safeguard the competitive process and disperse economic power. Given how far enforcers and the courts have strayed, this is urgently needed. By turning the focus of antitrust enforcement back to questions of market structure, competitive process, and concentrated power, Congress can ensure that these laws once again work to promote their intended values and goals.

3. Ban anti-competitive conduct by dominant firms

Congress should establish bright-line rules prohibiting particular kinds of conduct for companies that meet a certain threshold of scale and market power. For firms with market dominance, specific behaviors, including sustained below-cost selling, tying, and other forms of exclusionary conduct, should be considered outright violations of the law without the need to prove competitive harm.

4. Set a higher bar for mergers

To stem the tide of corporate concentration, Congress must a higher bar for corporate mergers and ban acquisitions by corporations that already have monopoly power. In reviewing mergers the enforcement agencies should consider the impact of these deals on market structure, competing businesses, suppliers, workers, and local communities. Enforcers should be attuned to the ways these deals can exacerbate inequality and further racial injustice.

5. Ensure the antitrust agencies have the oversight and resources to do their job

Finally, it’s imperative that the agencies have the oversight and the resources they need to enforce the laws. If you watched the Federal Trade Commission’s recent open meeting under the leadership of Chair Lina Khan, you witnessed a stream of grocers, cattle ranchers, pharmacists and other small business owners and representatives pleading with the agency to address blatant market power abuses in their industries. There is a lot of urgent work to do and agencies like the Federal Trade Commission are going to need the resources to do it.

Conclusion

As Congress takes up legislation to strengthen and reinforce the antitrust laws, you will no doubt be inundated by lobbyists for corporate giants. We saw this happen when the House Judiciary
Committee debated the Big Tech bills. Lobbyists for Amazon, Apple, Google, and Facebook inundated Congressional offices, working night and day to drown out the voices of small independent businesses. At times, Amazon and the other tech giants even claimed to speak for small businesses, arguing that allowing their market power to go unchecked was somehow good for the nation’s entrepreneurs.

Small businesses of course don’t have even a fraction of the lobbying resources that the tech giants have. It’s difficult enough for them to take time away from the daily demands of their businesses to follow the legislative process and reach out to your offices. When they do, I implore you to listen. Their stories tell a harrowing tale of how monopoly power is harming this country — and their stories can help guide you to the solutions we so urgently need.

Thank you.