MERCATUS CENTER
George Mason University

RESEARCH SUMMARY

Memes and Myths of Antitrust

Antitrust activists claim that antitrust enforcement against large US corporations during the 20th century helped remove monopoly bottlenecks and spur innovation. In "Memes and Myths of Antitrust," Richard N. Langlois says that this claim does not stand up to historical scrutiny. Antitrust enforcement not only failed to deliver positive outcomes but also may have led to negative consequences its supporters never intended.

Why Do We Undermine Our "National Champions"?

Six out of the seven most valuable businesses in the world today are American high-tech companies. But rather than encouraging its "national champions," the United States has pursued a policy of *undermining* them.

The justification for such targeting? The belief that these successful corporations must have achieved their success through anticompetitive behavior. Antitrust oversight would function as "the policeman at the elbow," constantly watching over industry to identify and punish anticompetitive behavior.

The False Claims of Antitrust

According to antitrust supporters, had it not been for antitrust prosecution (or the threat of prosecution), large corporations would have monopolized new technologies, thereby slowing innovation and the entry of competitors into the market. Americans thus often hear that antitrust suits prevented IBM from monopolizing the newborn personal computer industry, AT&T from monopolizing American telecommunications, and Microsoft from monopolizing the Internet.

An examination of these famous antitrust cases tells a different story.

Competition Was the Real Spur to Innovation

Langlois shows that antitrust intervention was not the driver of American innovation in the 20th century—dynamic competition was. Competition proved the best "policeman" of new and growing industries. It is what expanded technological frontiers and introduced new organizational forms.

But while antitrust enforcement failed to deliver the positive outcomes its supporters claim, it did lead to unintended negative consequences. Most notably, it distorted organizational decision-making within firms, motivating them to organize in less-efficient ways as a defensive measure.

- Rather than making complicated contracts with separate legal firms to engage in market transactions, firms began to undertake the same activities "in house."
- Firms engaged in such "vertical integration" to shield transactions from the view of antitrust authorities—to sequester business transactions behind the veil of the corporation.

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- Vertical integration was also an effort by firms to protect proprietary knowledge in a regime of weak intellectual property protection.