

Antitrust and Innovation: What the Alarmists Get Wrong

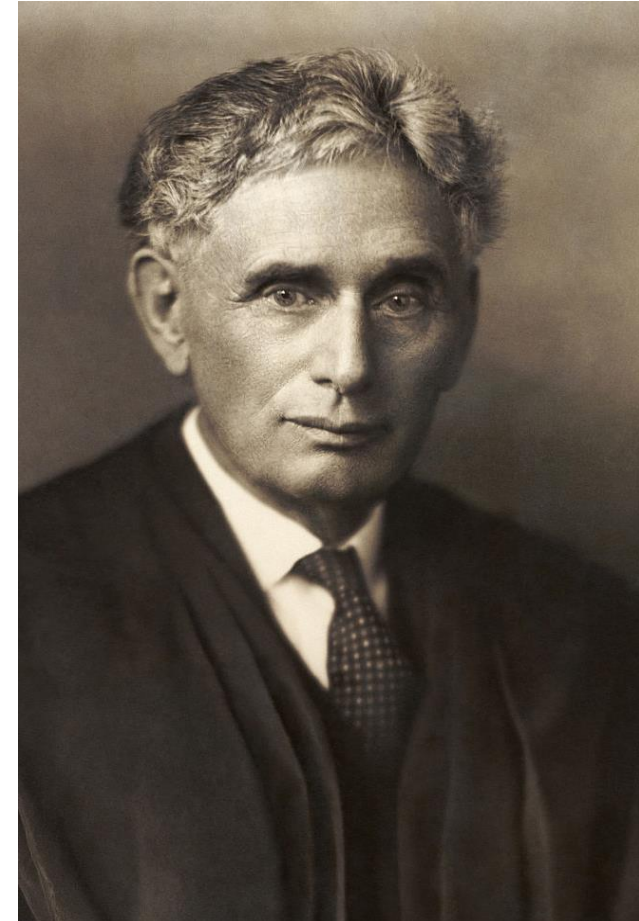
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Big Business is Under Attack: “Brandeisianism” is Back

“America has got into the habit of giving the benefit of the doubt to big business.”

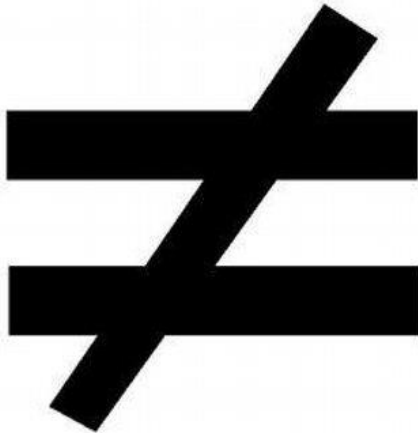
—*The Economist*



Anti-Trust and Economic Doctrines

	Populist	Chicago	Post-Chicago	Innovation
Major Goal	Fairness for consumers	Allocation efficiency	Allocation efficiency	Innovation, productivity, and global competitiveness
Temporal focus	Short-term	Short-term	Short-term	Longer-term
Scope of competition	National	Irrelevant	National	Global
View of Inter-firm collaboration	Suspect as anti-competitive Collusion	Okay, except for price fixing and other egregious practices	Suspect as anti-competitive Collusion	Can be a way for firms to address collective action challenges
Source of market power and rule	Unfair and exclusionary practices (per-se exclusions)	Firms' superior performance, or government interference (rule of reason)	Unfair and exclusionary practices, natural monopoly (both per-se and rule of reason)	Unfair practices, superior firm performance, and natural monopoly (mostly rule of reason)
Barriers to entry	High	Low or non-existent	Often moderate or high	Depends on the industry, but innovation can lead to dramatic entry and transformation

Innovation Industries Are Not Widget Industries

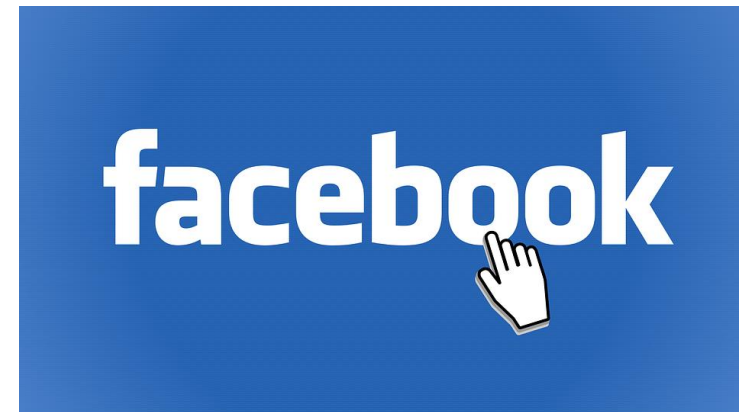


Two Kinds of Innovation Industries

- R&D Industries



- Network Industries



Competition and R&D Industries

- Role of Schumpeterian Competition:



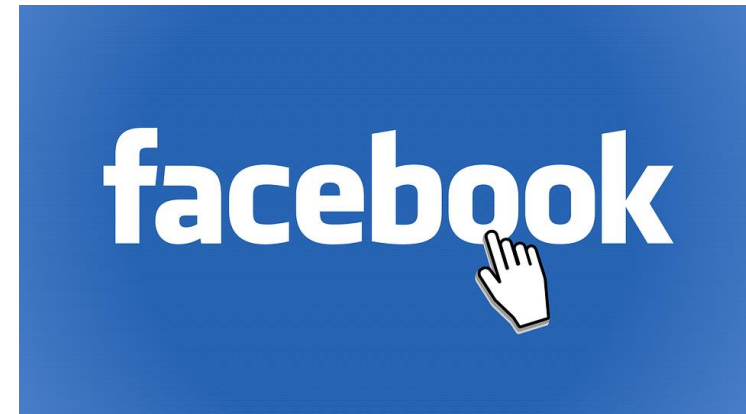
- Competition and the Inverted U: Arrow vs. Schumpeter



Competition and Network Industries

- There's a reason for concentration in network industries.
- Relevant competition, at least for free services, is the ad market, not the service itself.

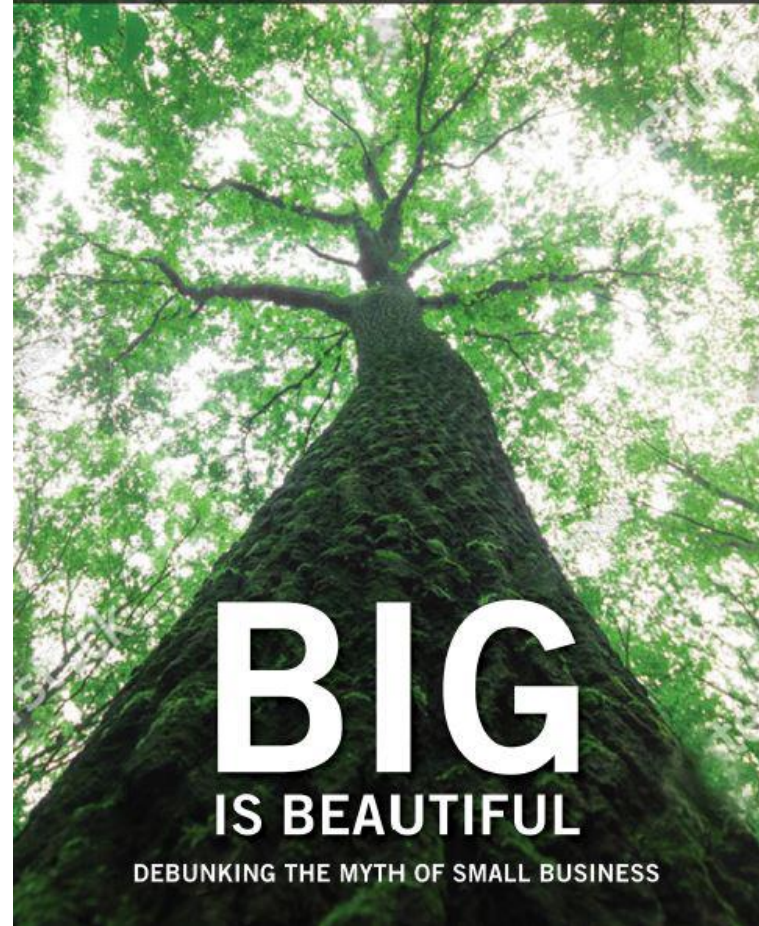
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Role for Competition Authorities

- Continue to recognize that from a competition perspective that innovation industries often have distinct economic characteristics that require distinct approach to competition policy.
- To the extent action is needed, focus should be largely on conduct, rather than performance.
- In merger review, consider global competition factors.

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Thank You!

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