Continuity in Economics at the FTC

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Disclaimer: Views are my own, not necessarily those of FTC or any of its Commissioners.

Bottom Line

- Chairman Muris has many times pointed to continuity of FTC policy from Pitofsky to Muris Commissions
- Also continuity in economics in the Muris Commission, from Scheffman → Froeb

Dispelling Myths

- “Difference between Froeb and Scheffman could not be more stark”
  - Antitrust Source (July, 2003)
- Muris/Scheffman NIE approach
  - “Careful, fact-based economic analysis grounded in a thorough understanding of the relevant institutions”
- Always been my approach
  - Analysis solidly grounded in relevant institutions and facts

How to Use Economics

- Theory can tell you:
  - What matters
  - Why it matters
- Theoretical predictions confront evidence
  - Customers
  - Natural experiments
  - Data
  - Econometrics
- New theories emerge
  - Thesis, antithesis, synthesis

Economics Evolves

- 1950-1980: Structure-performance theory
  - Implied merger policy
- Chicago/UCLA critique
- Theoretical predictions confront data
  - Focus of my early research
  - Leonard Weiss, “Demsetz won this battle”
- New institutional economics
  - Muris: “Competition is not a black box”
  - Institutions and real-world frictions matter
  - Theories grounded in real world institutions, facts, and behavior

How NOT to use Economics

- Begin with answer (theory), then find a question
  - Academic focus is on methodological innovation (answers)
  - Regardless of whether methodology is useful
- Example: Simulation has become too much of a “black box”
  - Used regardless of whether it fits the evidence

Whither Merger Simulation?

- Much ado about very little
  - Small role relative to other kids of evidence
  - e.g., Cruise Lines, Ice Cream
- Methodology is ten years old
  - Time for reassessment
- Tool appropriate for some jobs, not others
  - Transparent retail sector
  - Static competition
  - Compete in only one dimension
- Untested.
  - Does it explain current behavior?
  - Are the predictions robust?

How Can You Spot Analysis NOT Grounded in Reality?

- #1: Is analysis consistent with what you know or can observe?
- How do firms compete?
  - How and why do firms differ and what are implications?
    - How do margins differ across firms?
  - Do prices vary with marginal cost?
  - Do prices vary at all?
  - Is competition static?
  - Is the retail sector “transparent?”
  - Inelastic demand?

How can you Spot Analysis NOT Grounded in Reality? (cont.)

- How do consumers behave?
  - Who decides what?
  - Do consumers make a single choice from a well defined set of alternatives?
  - Are choices based only on relative prices?
    - Advertising, promotions, past choices
  - Do consumers stockpile inventory?
  - Are customers "locked in?"
  - Substitutes vs. complements

How can you Spot Analysis NOT Grounded in Reality? (cont.)

- Are predictions sensitive to alternate specifications?
  - "Specification searching" is a problem
- What is the confidence interval around your prediction?

Current Agenda: Increase Relevance of Empirical Economic Analysis

- Reassessment
  - Update practice in response to new learning
  - Continue develop reliable, useful empirical analyses
- Administrability
  - Methodology must give reliable, robust answers
  - Within time constraints of merger investigation
- Testing
  - Natural experiments are generally most important
  - Test simulations against consummated mergers