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The Amazon / Whole Foods overreaction: Antitrust populism exposed [Amazon-Whole Foods Symposium]
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Antitrust populism

What is antitrust populism? In a deeply insightful paper, Barack Orbach defines it as "*the use of thin ideas, exaggerations, and anxieties to advance antitrust theories*". From a policy standpoint, this often leads to the protection of small businesses and the identification of large business size as evil.

There is nothing new about this phenomenon. During the 19th century, newspapers fretted over the power of ice "monopolies", the railroads and the Standard Oil Company to name but a few. Economic populism was also a hallmark of the various reforms which followed the Great Depression. These views were notably championed by the late Justice Brandeis. Antitrust populism witnessed a resurgence in the early 70s when Ralph Nader published an alarming report on market concentration in the United States. More recently, some punditsworried about the AOL / Time Warner merger. They notably argued that the so-called "deal of the century" would bring the internet under the control of a single company (the merger actually turned out to be an abject failure).

Which brings us to last year's Amazon / Whole foods merger. In what follows, I hope to convince readers that the pushback against this merger was nothing but old wine in a new bottle.

The Amazon / Whole Foods claims

On June 16, 2017, Amazon revealed its intention to purchase the Whole Foods grocery chain. Despite Whole Foods' tiny 1.2% share of U.S. food and grocery sales, the announcement, along with the FTC's rapid clearance of the deal, caused an uproar amongst some commentators.

Jim Cramer said Amazon would "dominate food within the next two years". Barry Lynn, Director of the Open Markets Institute, claimed the deal would crush competition and allow Amazon to monopolize commerce in the United States. He added that only Uncle Sam could save Amazon's rivals from death. Lina Khan, also from the Open Markets Institute, intimated that Amazon would use its data to transfer its dominance from online to physical retail. Tim Wu called the merger a super-monopoly, referring to the multiple monopolies that Amazon would hold after the merger (presumably adding a grocery monopoly to its dominance of online retail). The list goes on…

To support their claims, many of these commentators pointed to the merger's effect on the stock market (Amazon's competitors took a heavy hit when the deal was announced). With these stock prices in mind, Scott Galloway, a professor at NYU Stern, claimed that markets were failing and that Amazon should be broken up.

The gist of these arguments is simple. The Amazon / Whole Foods merger would lead to the exclusion of competitors, with Amazon leveraging its swaths of data and pricing below costs. All of this begs a simple question: have these prophecies come to pass?

Reports of physical retail's death have been greatly exaggerated

A year after the merger, the stock prices of Amazon and its rivals paint a very different – far less troubling – picture:

	Close Price 06/01/2017	**Close Price 08/24/2017**	**% Change**
Kohl's	38.67	80.86	109%
Amazon	968	1,905.39	97%
Target	52.29	87.31	67%
Macy's	23.24	36.51	57%
Costco	159.93	231.28	45%
BestBuy	57.33	82.08	43%
Kroger	23.32	31.2	34%
Nordstrom	47.83	62.06	30%
Walmart	75.68	94.95	25%
S&P 500	2,423.41	2,874.69	19%
JC Penny	4.65	1.83	-61%
Sears	8.86	1.1	-88%

Table 1: Closing prices of Amazon and its rivals' stock (Source: Yahoo Finance)

Most of Amazon's rivals have registered significant gains since the Whole Foods deal was announced. Chief among them are Kohl's and BestBuy, whose stocks are currently at all-time highs. Kohl's stock actually outperformed Amazon's (+109% versus +97%). Target, Macy's, Costco, Kroger, Nordstrom and Walmart have also shown healthy gains. Their stocks have all risen faster than the S&P 500 index. Granted, some rivals have not been so successful. The stocks of J.C. Penney and Sears have hit all-time lows, and both companies are facing the prospect of bankruptcy (though their decline started well before the Whole

Foods merger).

Although it is still too early to draw any firm conclusions, it seems that the merger's anticompetitive potential was dramatically overplayed by its opponents. Most of Amazon's direct rivals are still making healthy profits (as reflected by their stock prices). This is inconsistent with the vertical foreclosure and predatory pricing stories put forward by critics. Under vertical foreclosure, rivals are deprived of key inputs (or outputs) which prevents them from competing. Predatory pricing occurs when a dominant firm prices below cost in the hope of recouping its losses once rivals have exited the market. Crucially, both of these scenarios necessarily imply that the bottom lines of rivals will suffer (ultimately falling to zero). At the time of writing, this simply has not been the case.

Of course, there are some legitimate concerns about the above conclusion. Just because anticompetitive scenarios have not yet transpired does not guarantee that they will not occur in the future. Likewise, the overall profits of rivals may conceal losses in those markets where they actually compete with Amazon. Finally, it is possible that these rivals' profits would have been higher had the merger not gone through. Although these potential counterarguments might deserve some attention, they do not detract from the inescapable conclusion that, as of yet, Amazon has not managed to exclude any of its large retail competitors thanks to its acquisition of Whole Foods.

The merger's many overlooked benefits

The problem with antitrust populism is not just that it leads to unfounded predictions regarding the negative effects of a given business practice. It also ignores the significant gains which consumers may reap from these practices. The Amazon / Whole foods offers a case in point.

Amazon's acquisition of Whole Foods has already generated significant benefits for consumers. First and foremost, Amazon immediately implemented a number of price reductions following the deal. It also started to harness the various synergies that existed between itself and Whole Foods. It notably made some of Whole Food's items purchasable on Amazon, and placed Amazon lockers in numerous Whole Foods stores (allowing consumers to pick-up packages from these locations). The online retailer also ensured that its Prime members would receive various discounts when they visit Whole Foods stores.

The merger's benefits do not stop with Amazon. As others have pointed out, rivals reacted to the merger by replicating these cost reductions and innovative services. Walmart notably concluded a deal with Google to allow users to make purchases using Google's voice assistant. Kroger decreased its prices and expanded its delivery service. And Target introduced a same day delivery service.

Of course, it is hard to tell whether these benefits would have been achieved without the Amazon / Whole foods merger. Amazon could conceivably have entered into a long term contract with Whole Foods, and rivals may have introduced their improvements regardless of the merger. But this is far from certain. As Benjamin Klein, Robert Crawford and Armen Alchian famously pointed out, long term contractual relationships can sometimes entail significant practical obstacles. The upshot is that it is often more cost-effective for firms to opt for an outright merger. And if a merger was indeed necessary to generate synergies between Amazon and Whole Foods, then there is little doubt that it also played some part in the competitive response of rivals. In short, there are strong reasons to believe that the Amazon's acquisition of Whole Foods may have caused some of the benefits which U.S. retail consumers are currently enjoying.

Concluding remarks

I hope that the preceding paragraphs will convince readers that the response of many commentators to the Amazon / Whole Foods merger was simply antitrust populism. Nothing at the time of the merger justified the doomsday scenarios that were being bandied about. One year on, the fears purveyed by these critics seem even less founded. The U.S. retail sector is in fine form, consumers are enjoying cheaper goods and better service, and there are no signs of anticompetitive exclusion on the horizon.

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