

POWERLESS:

How Lax Antitrust and Concentrated Market Power Exacerbate and Reinscribe Racial Inequality

Today, many of the problems with our economy can be traced to market power, a condition that exists when dominant companies face so little competition in the market that they are able to extract value to make profit rather than earning profits by competing for them. Economies with concentrated market power, like the one we have today, produce fewer jobs at lower wages, with more expensive goods and less innovation.

Over the last 40 years, corporate consolidation has both driven and reinforced companies' market power. The evidence of this shift in our economy is staggering: The number of mergers and acquisitions has skyrocketed—increasing from less than 2,000 in 1980 to roughly 14,000 per year since 2000.¹ As a result, more than 75 percent of U.S. industries became more concentrated between 1997 and 2012, meaning a smaller number of larger firms account for most of the revenue.² It is increasingly apparent that the rise of consolidation has had detrimental effects on the overall economy, but this trend is especially pernicious for communities of color.

The economic effects of market power have real-world—and disproportionate—consequences for communities of color, exacerbating existing inequalities caused by racial exclusion or other forms of structural discrimination. Market power and lax competition policy entrench the advantages of wealth and power within society; for those with less, like communities of color, this reinscribes inequality.

POWERFUL COMPANIES PREY ON MARGINALIZED COMMUNITIES, WHICH TEND TO HAVE THE FEWEST ALTERNATIVES TO GOODS AND SERVICES PROVIDERS.

Companies with market power charge consumers of color more for products.

Exploiting the structural absence of market access, some companies engage in price discrimination—charging different prices to different customers—in communities of color. Mortgage companies and car insurance providers have been discovered charging consumers of color more, and there is some evidence that major retailers and travel sites offer different prices based on digital activity—opening the door to discrimination based on technological characteristics tied to race. Unfortunately, these practices are difficult to track and regulate, though they are likely to proliferate as companies increasingly gather and analyze user data.³



Corporate consolidation has contributed to food deserts in communities of color.

Studies show that urban minority communities are underserved by grocery stores, with fewer supermarkets and larger distances to existing ones.⁴ Because communities of color are less likely to have as many grocery stores as more affluent and whiter areas, they therefore have less access to healthier food options. While food deserts are the result of several intersectional factors, including poverty and transportation access, the consolidation of grocery stores has resulted in a decline of small, independent grocers that once served communities of color.⁵

Low-income communities of color often lack access to high-speed internet in part as a result of market power and corporate consolidation.

The deregulation of the telecommunications sector in the 1990s allowed sweeping consolidation of the industry and created a broadband market with significantly less competition between firms, steeper prices, and slower speeds compared to other industrialized nations.⁶ This monopolized and deregulated environment has allowed internet service providers to update digital infrastructure in the most profitable, high-income areas first. The persistence of *de facto* racial segregation in neighborhoods means that such investments (and lack thereof) results in digital redlining of a disproportionate number of neighborhoods of color and rural areas.⁷

THROUGH CORPORATE CONSOLIDATION, POWERFUL FIRMS HAVE MADE IT HARDER FOR SMALL BUSINESSES TO COMPETE, WHICH HAS DEPRESSED ONE OF THE LEADING HISTORICAL PATHWAYS FOR THE GROWTH OF THE BLACK MIDDLE CLASS.

Corporate consolidation has stifled independent, black-owned businesses. By serving their communities when others wouldn't, black-owned businesses provided a pathway to upward mobility for a generation of black Americans and supplied critical leadership and financial support for the civil rights movement. As independent, locally owned businesses are pushed out by externally owned and managed companies, these pathways and community supports are weakened. Over the past 30 years, tens of thousands of black-owned businesses have gone out of business or been acquired by larger companies. In 1985, 60 black-owned banks were providing financial services to their communities; by mid-2017, only 23 remained. Of the 50 black-owned insurance companies operating in the 1980s, just two remain in business.^{8,9}

The loss of minority-owned, independent businesses erodes a pathway to the middle class. Between 1997 and 2014, the per capita number of black employers declined by 12 percent.^{10,11} As workers of color faced discrimination in the labor market, entrepreneurship



offered an opportunity for promoting economic growth, wealth, and good jobs that stayed in minority communities. As independent firms are being acquired or prevented from finding a foothold, they are less able to provide these pathways to their community.

CORPORATE CONSOLIDATION HAS LED TO FEWER JOBS, LOWER WAGES, AND MORE PRECARIOUS WORK—WHICH EXACERBATE AND REINFORCE EXISTING DISPARITIES AND DISPROPORTIONATELY FALL ON PEOPLE OF COLOR.

Market power makes it easier for companies to set wages and discriminate against workers. There is emerging evidence that wages have decreased most in consolidating industries, suggesting that corporations are paying low wages simply because their power and the lack of competition with other firms allows them to. Where there are consolidated labor markets, employers may be able to discriminate in employment decisions as employees will have few other employment options. And, for black Americans who have not seen a decline in hiring discrimination in the past 25 years, there is even less opportunity to simply go elsewhere.¹²

A low-wage economy disproportionately harms people of color. For 40 years, median wages have stagnated, even as workers become more productive, and the share of GDP paid as income to workers has declined since 2000. Workers of color are disproportionately represented in low-wage jobs. In 2011, 36 percent of black Americans, including 38.1 percent of black women, and 43.3 percent of Latinos, including 47.3 percent of Latinas, were employed in low-wage jobs, earning poverty-level incomes or less.^{13,14}

Precarious work situations may prevent workers of color from accessing the full benefit of federal civil rights protections. When a company gains market power, it is no longer forced to compete for profits, so it can instead extract value. This results in what are sometimes called “alternative work arrangements”: outsourced jobs, contract jobs, temporary jobs, and work in the so-called “gig” economy. From 2005 to 2015, 100 percent of the net new jobs created were in these insecure alternative work arrangements.¹⁵ As more and more jobs are placed outside of the traditional employer/employee relationship, more and more workers are excluded from the federal civil rights protections—including Title VII of the Civil Rights Act, which prohibits employment discrimination on the basis of race, sex, and several other characteristics. By blocking access to the courts, mandatory arbitration clauses make it harder for workers to enforce the rights they do have.



MARKET POWER AND ITS EFFECTS ARE NOT OUT OF OUR CONTROL.

Just as the current rules permit firms to consolidate market power, we have the ability to rewrite the rules to ensure fair competition in the market. To rebalance, the government must reinvigorate antitrust law and regulation, as well as take additional steps to regulate or provide alternatives in certain types of markets.

- **Regulate market structure** and prevent the aggregation of private power, primarily by blocking mergers and breaking up or restructuring existing overly powerful firms.
- **Curtail anti-competitive behavior** by prohibiting and punishing behaviors that are extractive—like exclusive dealing contracts, price discrimination and market segmentation, and blocking or tolling small business access to the market.
- **Regulate “natural monopolies” as utilities** and intervene when competition fails. Using either more comprehensive regulation or creating public options for natural monopolies like telecommunications and energy, government can ensure both the steady provision of necessary services as well as equitable distribution.

Although antitrust reform is essential to limiting the consolidation of power by the wealthiest corporations and individuals, it will by no means ensure a just and equitable society on its own. Nonetheless, it is important to identify the racialized and gendered impacts of market power to ensure that we prioritize the kinds of targeted solutions that can address these pernicious effects.

For additional information on market power, see <http://rooseveltinstitute.org/powerless>.

¹ Institute for Mergers, Acquisitions & Alliances. Nd. “United States – M&A Statistics.” IMAA. Retrieved June 4, 2017 (<https://imaa-institute.org/m-and-a-us-united-states/>).

² Grullon, Gustavo, Yelena Larkin, and Roni Michaely. 2016. “Are U.S. Industries Becoming More Concentrated?” Retrieved June 4, 2017 (http://www.cicfconf.org/sites/default/files/paper_388.pdf). Also available at SSRN.

³ Hannak, Aniko, Gary Stoeller, David Lazer, Alan Mislove, and Christo Wilson. 2014. “Measuring Price Discrimination and Steering on E-Commerce Web Sites.” Presented at the 2014 Conference on Internet Measurement, Vancouver, BC, November 5, 2014. Retrieved June 4, 2017 (<http://dl.acm.org/citation.cfm?id=2663744>).

⁴ Elsheikh, Elsadig and Nadia Barhoum. 2013. “Structural Racialization and Food Insecurity in the United States: A Report to the U.N. Human Rights Committee on the International Covenant on Civil and Political Rights.” Haas Institute for a Fair and Inclusive Society at the University of California Berkeley. Retrieved March 14, 2018 (<http://haasinstitute.berkeley.edu/sites/default/files/Structural%20Racialization%20%20%26%20Food%20Insecurity%20in%20the%20US-%28Final%29.pdf>).

⁵ Ross, Eamon. Forthcoming. “The Many Hands Food Cooperative: Tackling Food Insecurity, Poverty, and Building Sustainable Communities Through the Cooperative Model.” New York, NY: Roosevelt Institute.

⁶ Mabud, Rakeen and Marybeth Seitz-Brown. 2017. “Wired: Connecting Equity to a Universal Broadband Strategy.” New York, NY: Roosevelt Institute. Retrieved March 14, 2018 (<http://rooseveltinstitute.org/wired-connecting-equity-universal-broadband-strategy/>).



- ⁷ Ibid.
- ⁸ Feldman, Brian. 2017. "The Decline of Black Business." March/April/May, *Washington Monthly*. Retrieved March 14, 2018 (<https://washingtonmonthly.com/magazine/marchaprilmay-2017/the-decline-of-black-business/>).
- ⁹ Steinbaum, Marshall, Eric Harris Bernstein, and John Strum. 2018. "Powerless: How Lax Antitrust and Concentrated Market Power Rig the Economy Against American Workers, Consumers, and Communities." New York, NY: Roosevelt Institute.
- ¹⁰ Ibid.
- ¹¹ Feldman, "The Decline of Black Business."
- ¹² Quillian, Lincoln, Devah Pager, Arnfinn H. Midtbøen, and Ole Hexel. 2017. "Hiring Discrimination Against Black Americans Hasn't Declined in 25 Years." October 11, *Harvard Business Review*. Retrieved March 14, 2018 (<https://hbr.org/2017/10/hiring-discrimination-against-black-americans-hasnt-declined-in-25-years>).
- ¹³ State of Working America. Nd. "African Americans." Washington, DC: Economic Policy Institute. Retrieved March 14, 2018 (<http://stateofworkingamerica.org/fact-sheets/african-americans/>).
- ¹⁴ State of Working America. Nd. "Latinos." Washington, DC: Economic Policy Institute. Retrieved March 14, 2018 (<http://www.stateofworkingamerica.org/fact-sheets/latinos/>).
- ¹⁵ Katz, Lawrence F., and Alan B. Krueger. 2016. "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015." Harvard University and National Bureau of Economic Research. Retrieved March 14, 2018 (https://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf).



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