FEDERAL TRADE COMMISSION

COMPETITION AND CONSUMER PROTECTION
IN THE 21ST CENTURY

Thursday, September 13, 2018
9:00 a.m.

Georgetown University Law Center
600 New Jersey Avenue, N.W.
Washington, D.C.
Welcome and Introductory Remarks:
By Chairman Joseph Simons

Panel 1: The Current Landscape of Competition and Consumer Protection Law and Policy

Panel 2: Has the U.S. Economy Become More Concentrated and Less Competitive: A Review of Data

Panel 3: The Regulation of Consumer Data

Closing Remarks by Howard Shelanski
MR. TRAINER: Good morning, everyone. I am Bill Trainer, the Dean of Georgetown Law, and it is my honor and my pleasure to introduce this first set of FTC hearings on Competition and Consumer Protection in the 21st Century. And we at Georgetown Law are very pleased to be host to this event, and I think it is very fitting that we are here.

Georgetown Law’s connection to antitrust and consumer protection is longstanding and very deep. Dean Robert Pitofsky served as Bureau Director, Commissioner and then Chair of the FTC over his long distinguished career. Numerous agency leaders have been graduates of Georgetown Law, most recently, our current FTC Chair Joe Simons, who we will be hearing from shortly; also Commissioner Nominee Christine Wilson, former DOJ Assistant Attorney General Christine Varney, Monique Fortenberry, who is a deputy executive director of the FTC. We are very proud of having educated so many of the leaders of the FTC.

And among our current faculty, David Vladeck, who is at the end of our panel today, was Director of the Bureau of Consumer Protection; Howard Shelanski was Director of the Bureau of Economics. Professor Steven Salop was both a senior official in
the FTC’s Bureau of Economics and a mentor to Chairman
Simons and Christine Wilson. Actually, the Chair and
I were just talking about how his time at Georgetown
Law had really prepared him in every way for the
career that you have had. So we are just very proud.

And it is appropriate -- and it is
particularly appropriate, I think, because in some
ways these hearings are intended to follow the path
that was sent by the FTC’s Global Competition and
Innovation hearings, which were held in 1995, when Bob
Pitofsky was the FTC’s Chairman.

So we can look forward over the course of
these hearings to a serious, insightful and
interesting set of discussion on some of the most
pressing questions facing antitrust and consumer
protection policy.

CHAIRMAN SIMONS: Don’t take my thunder,
okay?

BILL TRAINER: Okay.

(Laughter.)

BILL TRAINER: Let me just kind -- do not
expect too much until you hear from the Chair who will
bring up your expectations.

The FTC will be continuing its hearings in
locations across the country, and over the next
several months, it will be exploring new ideas that
approaches to its historic statutory mission.
And for those of you want to hear more about
the antitrust issues of the day, right here at
Georgetown Law, our global antitrust symposium, which
is now in its 12th year and is one of the most
prominent antitrust conferences outside of the ABA’s
spring meeting will take place in this room in about
two weeks.

So thank you all for coming. I want to
congratulate the FTC for its initiative and hard work
in organizing these public hearings. And, now, I
would like to call to the podium the Director of
Office of Policy Planning, Bilal Sayyed.

(Applause.)

MR. SAYYED: Okay, I will not take long
except to thank everybody for coming and to tell
people a little bit about what we will do today. We
will turn to the Chair in just a minute, but I just
want to tell everybody this event is being webcast.
The webcast will be posted to the FTC’s website
shortly after we conclude. The session is being
transcribed and the transcript will be posted
quickly.

Tomorrow’s planned session -- excuse me,
tomorrow’s planned session has been canceled because of concern about the weather, but it will be rescheduled. We will make the effort to reschedule it here at Georgetown fairly quickly.

Some of my FTC colleagues will be passing out question cards. If members of the audience have questions that they would like to put to the panel, they should write them on the card and raise their hand and we will come collect them.

We have an open comment process. So we encourage people to continue to comment. That comment process will be open through probably the end of February. But we encourage people to comment on what they hear today, both what is presented and what is discussed.

And then all presentations made here will be posted on the website. And as I noted, the transcript of the session will be posted.

So with that, I will turn it over to the Chairman and he will kick us off to get started.
WELCOME AND INTRODUCTORY REMARKS

CHAIRMAN SIMONS: All right. Well, thank you so much, Bilal.

Good morning, everyone, and welcome. On behalf of all of us at the Federal Trade Commission, I want to thank you for coming to the opening of our hearings on Competition and Consumer Protection in the 21st Century. Our goal is to make these hearings as informative, insightful, and consequential as possible, covering some of the most important competition and consumer protection policy and enforcement issues of the day. We believe we are situated to do just that.

These hearings, as has been discussed already, are modeled on the ones that were held back in 1995, by then Chairman Bob Pitofsky, who, in his opening remarks, said at the time, “These hearings are designed to restore the tradition of linking law enforcement with a continuing review of economic conditions to ensure that the laws make sense in light of contemporary competitive conditions.” We intend to continue that same tradition with these hearings.

We are very fortunate to have a large group of highly respected participants representing a diverse range of views, including academics,
practitioners, enforcement officials, and representatives from public interest groups. I am proud that we are opening the hearings at Georgetown University Law Center where Chairman Pitofsky spent much of his career when he was not otherwise at the FTC and where I received my initial antitrust education, to a significant extent, from Professor Pitofsky.

Today, I want to talk about why the Commission is holding these hearing. Almost 30 years ago, I came to the FTC the first of my three times, at the tail end of the Commission’s adoption of a significantly revised approach to antitrust enforcement. This change, which began in 1981 and was implemented to a large extent by Tim Muris, who is two or three people to my left here, this change, which began in 1981, reflected new learning that had begun to influence Supreme Court antitrust doctrine.

It was primarily driven by the scholarship of academics, the most prominent Phil Areeda, Don Turner, Frank Easterbrook, Richard Posner and Robert Bork, were associated with either Harvard University or the University of Chicago. They applied microeconomic principles to antitrust questions and paid attention to empirical work, which lead them to
conclude that a lot of the pre-1970's antitrust case law was inconsistent with rational, procompetitive and economically beneficial behavior.

By the time I left the agency for the first time in 1989, application of microeconomic principles and economic models was routine and encouraged. Notwithstanding some initial criticism, the Clinton Administration’s antitrust leadership, including Bob Pitofsky, Anne Bingaman, and Joel Klein, largely adhered to the same principles.

So when I returned to the Commission as Director of the Bureau of Competition in 2001, there was substantial support for and an acceptance of the antitrust reforms that had been initiated 20 or so years prior. In other words, there was a general consensus on how we ought to think about antitrust enforcement and policy.

But now at the beginning of my third stint at the Commission, things have shifted. The broad antitrust consensus that has existed within the antitrust community in a relatively stable form for about 25 years is being challenged in at least two ways. First, some recent economic literature concludes the U.S. economy has grown more concentrated and less competitive over the last 20 to 30 years,
which happens to correlate with the timing of the change to a less enforcement-oriented antitrust policy, beginning in the early 1980s. These concerns merit serious attention and they will be part of today’s discussion.

Second, some are debating the very nature of antitrust itself, calling for antitrust enforcers to take account of policy goals beyond consumer welfare. Inequality, labor issues, excessive political power are perhaps the main examples. We will discuss some of these suggestions during later sessions. These concerns raise a challenge to antitrust agency leadership, the courts and legislators to think hard about whether significant adjustments to antitrust doctrine enforcement decisions and law would be beneficial to our country in order to accommodate these concerns.

As I noted in announcing the hearings, it is important that the antitrust enforcement agencies be at the forefront in thinking about these issues, not bystanders to this debate. To that end, today and continuing through the fall and the early winter, we have invited interested parties to discuss these issues, both through public comment and public sessions with us and each other. We do this with the
goal of understanding whether our current enforcement
policies are on the right track or on the wrong track,
and if they are on the wrong track, what do we do to
improve them.

I approach all of these issues with a very
open mind, very much willing to be influenced by what
I see and hear at these hearings. I am old enough to
have witnessed, in my own career, dramatic changes in
antitrust policy and enforcement. These changes have
largely been driven by developments within the
economic community which were then adopted by the
legal community.

The movement by economists, however, has not
always been in the same direction. In the 1950s and
'60s, a substantial body of empirical economic work
purported to show significant antitrust effects --
anticompetitive effects at relatively low levels of
concentration. In 1968, the DOJ issued merger
guidelines based on these studies. But just about the
time the guidelines were issued, the economic studies
on which they were based were being substantially
discredited. As a result, the agencies over time
raised the concentration levels at which mergers were
seen as problematic.

A more recent example where developments in
economics increased the level of successful merger
enforcement involves hospitals. In the 1990s, the
Government lost a large number of hospital merger
cases in a row and the agencies considered whether to
give up on hospital merger enforcement. Fortunately,
we did not. Instead, we engaged in empirical economic
studies that demonstrated the anticompetitive effects
of hospital mergers and we revitalized our hospital
merger enforcement program.

So the developments in economics can
suggest, depending on the circumstances, that our
enforcement has been either too aggressive or too lax.
This episode involving hospital merger enforcement
really drove this point home for me personally. The
use of economics should not be thought of as a one-way
ratchet only driving down the level of antitrust
enforcement. Good economics might point us towards
more or less enforcement depending on the facts and
the analysis in front of us at the time.

In my view, basing antitrust policy and
enforcement decisions on an ideological viewpoint
whether from the left or right is a mistake. Whether
or not we expand antitrust beyond the consumer welfare
standard, I would rather make policy and enforcement
decisions based on the best evidence and analysis,
including, in particular, empirically-grounded economic analysis that enables the analyst to weigh the cost and benefits broadly defined to help determine the best approach. My hope is that these hearings will significantly improve our ability to do so and help to bring about a new and improved consensus among our antitrust stakeholders.

But we are not focused solely on competition issues today or throughout the hearings. The strength and direction of the agency’s consumer protection mission is also something that we are going to explore at some length at these hearings. Today, our most significant and difficult consumer protection issues often revolve around the use and abuse of technological capabilities not likely imagined during Bob Pitofsky’s chairmanship. As a result, we will be having multiple sessions on data security issues. And our upcoming hearings on platforms, big data, and artificial intelligence will address consumer protection issues, including privacy, as well as competition issues.

Before closing, I want to thank not only the participants in these sessions but the many groups and individuals who have filed comments in response to our initial hearings notice. We have received over 500
nonduplicative comments, many of very substantial length and thoughtfulness. We are reading them and considering them carefully. We expect more comments as we proceed, and I encourage those interested to comment on what you hear today and throughout the hearings.

I also want to thank our cosponsor and host, the team at Georgetown University Law Center for helping us pull this initial effort together. I also want to recognize the staff of the FTC for their efforts in both preparing for the substance of the event and undertaking all the logistics to bring this together.

I and all of the Commissioners are grateful for the work of so many people within the FTC and outside the FTC, who are engaged in making this a successful effort.

Thank you for attending, and I hope you enjoy the hearings.

(Appplause.)

CHAIRMAN SIMONS: And I will turn it over to Bilal.

(Welcome and introductory remarks concluded.)
PANEL 1: THE CURRENT LANDSCAPE OF COMPETITION AND CONSUMER PROTECTION LAW AND POLICY

MR. SAYYED: Okay. So I will just take a few minutes to introduce the panelists and then try to get out of the way.

In no particular order or maybe some particular order, Jason Furman will speak first. Jason is presently a professor at the Kennedy School at Harvard University and was formerly the Chair of the Council of Economic Advisors.

Tim Muris, just to Jason’s left, is presently a senior counsel at Sidley Austin, but was also Chairman of the FTC from 2001 to 2004, and previously directors of both the Bureau of Competition and the Bureau of Consumer Protection, but not, of course, not at the same time.

Just to the left of Tim is Alysa Hutnik. She is a partner at Kelley Drye and really an expert in consumer protection law.

Immediately to my left is Jim Rill. Jim is senior counsel at Baker Botts presently, but was head of the Antitrust Division from about 1989 to 1992.

And then we also have Jan McDavid, who was not head of either agency, but certainly is one who has been considered to head either -- maybe even both
agencies, in the past. Jan is a partner at Hogan Lovells.

Finally, but no means least, Professor Vladeck, who served as director of the Bureau of Consumer Protection just a few short years ago and, of course, is a professor here at Georgetown.

So with that, I am going to turn it over to Jason and just remind everybody if they have questions, raise your hand, pass your questions over to some of my colleagues who are collecting question cards.

MR. FURMAN: Thank you so much. And I thought Chairman Simons’ remarks were perfect in three respects. One is you want somebody to be open-minded coming to this question because thinking really is evolving very rapidly. Second, he had a really excellent capsule history of antitrust and thinking. And third, I think he made it clear that he was deferring completely to economists in how he was proceeding on this matter.

I am a little bit of an interloper on this panel. I think I am one of the only economists. Anyone that knows any economics would know I am even more of an interloper than that because my main focus has been on macroeconomic issues, labor market issues,
inequality, not on industrial organization and
antitrust, narrowly defined.

When I was chairing the Council of Economic
Advisors, I came to this issue partly out of what I
will now admit was paranoia. There was a crime that
had been committed and we were looking for suspects.
The crime was low productivity growth and high
inequality, something clearly going wrong in the
economy, productivity growth being about a percentage
point lower over the last decade than it had been
previously. At the same time, high levels of
inequality continued to move higher. And those were
the two factors that were underlying the slowdown of
the growth in income for the typical families that I
think is the central challenge for economic policy.

So what can you do to raise productivity
growth to reduce inequality? And we are looking
around at a lot of different suspects. Just to be
clear, there is more than one cause of this set of
phenomenon. But one thing we alighted on was this
area. Part of what motivated it was a few sub-facts
under those two big ones. And let me list a few of
them.

One, a number of economists had documented
that throughout the economy, there was less churn and
dynamism; fewer businesses being created; older businesses, larger businesses increasingly dominating the economy; fewer people moving from job to job, so a little bit more of a sclerosis than we would like to think is the case for the U.S. economy.

There was on terms of -- I am sorry, reduction in investment, a trend down in investment. Partly that is a shift to intangibles, but not completely, and trying to understand that. On the inequality side, there was a fall in the reduction -- I am sorry, a fall in the share of income going to labor and, finally, an increase in markups and a rise in the rate of return to capital relative to the safe rate of return and an increasingly skewed rate of return to capital with some very successful companies having persistently very high returns much higher than the median -- relative to the median than they had before. So this was a fact pattern about aggregate data that made us look beneath the aggregates in terms of what was going on at the firm and the industry level.

Now, one way to look at what is going on at the firm and industry level is to use aggregate industrial data and to divide up the economy into 10 industries, into 800 industries, and look within each
one of those at what is going on in concentration --
and a number of people did that, Greyon, et al.,
Altar, et al. We did it at the Council of Economic
Advisors and you saw it in the press as well in places
like the economists -- and would generally find that
in about 75 percent of industries defined in this way
concentration increased.

Now, as the antitrust community was quick to
point out, there is some dispute as to whether it was
35 years ago people realized this was an idiotic
procedure or 50 years ago that people realized this
was an idiotic procedure, but that these are not
antitrust markets. Now, the people that put this
forward from the beginning, including ourselves,
understood that. No one would bring an antitrust case
based on these types of aggregate data. Everything
has pluses and minuses. But we are trying to look at
economy-wide phenomenon and really needed to use
economy-wide data because the type of relevant
antitrust market analysis we have for some parts of
the economy -- and I will talk about it in a moment --
but we do not have it for all of them and cannot
really aggregate up, synthesize, and add it all
together.

When looking at this macro data, I think the
question is not ex ante what do we think about it. Of course these are not the relevant markets for antitrust. It is, does it work? Does it help explain some of what we are trying to explain? And subsequent research by Gutierrez and Philippon, among others, has found actually that at this aggregate level increases in concentration are tied to reduction in business investment, are tied to reductions in R&D by business, and also are associated with rising markups in those industries and rising rates of profit in those industries. So you see that these different measures seem to, in a broad sense, work and explain some of what we are interested in.

The next set of measures that one could look at are not the aggregate macro data, but are doing what you would do in an antitrust case, which is looking at a particular relevant market, properly defined, and asking is the level of concentration high, has the level of concentration increased.

There have been a range of studies -- some done by the FTC; a number done by economists -- for a lot of markets, ad services, health insurers, hospitals, refrigerators, airlines, telecommunications, beer, all of which have consistently found very high levels of concentration,
and in many cases rising levels of concentration, well
in excess of the levels that would trigger a review if
there was a merger under the merger guidelines.
Moreover, a new trend of research, one that
is still very new, I would not necessarily go and make
policy on it with certainty tomorrow, but one that so
far is turning out to be empirically more convincing
than, frankly, I would have expected on common
ownership finds that when the same few companies own
all of the airlines and own all of the banks that that
increases concentration above and beyond what you
would measure if you thought that American Airlines,
United Airlines and Delta were three different
companies when you realize they are all owned by the
same companies. And you see that in a variety of
data, including, remarkably, at sort of a root-by-root
level in terms of the pricing. So there is a wealth
of microeconomic, more traditional antitrust evidence
for this.

So the question now is, why have we seen
this increase in concentration and what are its
consequences? I do not think there is any single
answer to the why question. In some cases, the
increase in concentration may be for good reasons and
reflect increases in efficiency, increases in
competition that weed out some of the less effective firms, globalization and the like. This is an explanation that has been stressed by economists, including David Autor, et al.

That is a story that probably works pretty well in the retail sector where it was not that there were a few big mergers; it was not that there was some collusive common ownership, but a company, Walmart, figured out how to have better supply chain management and grew, and then Amazon did the same online, and as a result there is more concentration in that sector and it reflects that increase in efficiency.

For a lot of the economy, though, the story is much less benign than that one and it gets to -- has its roots in what Chairman Simons described as a large change in the way we thought about antitrust. Kwoka has documented, for example, the FTC’s oversight -- challenge -- you know, looking into mergers, used to look at, you know, six to five, now would never look at something like that. So you have changes in antitrust enforcement. Some of it may be grounded in other parts of the economy.

We should be looking also at things like regulations and rent seeking that allow companies to, you know, create rules that benefit themselves at the
expense of others, certainly in questions like intellectual property. And I think a lot of these competition issues are about antitrust, but they go more broadly.

And then if you look at labor markets, you want to look at occupational licensing, something the FTC has been at the forefront of for a long time, land use restrictions and a bunch of ways that reduce competition in the economy.

So I think you have this combination of good reasons, bad, and then you have some that are, you know, ambiguous. If you look at something like the tech sector, you have seen a lot of innovation, but you also have platforms with network effects that lend themselves to scale, that might say that it is efficient to have a single producer at scale. It is also efficient to have a single municipal water company, but that does not mean we would want to let it go off and charge whatever it wanted to charge.

I am not saying that we want to regulate technology the same way we regulate municipal water. It is much more complicated and it is an issue that I am currently looking at as head of an expert panel for the U.K. Government reviewing digital competition. But try and understand the combination of good reasons
that you have seen companies grow with innovation and
c ompetition and bad.

I want to talk about why we care about this.

Traditionally, in economics, this is just about prices
and it is about prices being higher. I think that
issue matters. Airline prices and cell phone bills
are higher in the United States than they are in
Europe because European competition enforcers have
been more vigorous; they have more players in those
industries than we do. So I think the price issue
matters.

The price issue may be a lot smaller than
some of the others I talked about. One is innovation.
What this does to the incentives for business
investment, for R&D, for productivity growth. There
is a longstanding debate between a view of Arrow and
Schumpeter in economics about the impact of
competition on innovation, but there is a number of
ways in which it could be deleterious.

And then, finally, inequality. And there
has been -- at the same time that there has been this
increased thinking about these types of macro issues
in competition, there also has been in labor markets,
as well. And that is grounded in the observation that
every employment relationship has a bit of monopoly
power and a bit of rent that is being divided between the two because there is a cost of finding a new job and shifting a job. So market power matters a lot.

If you have one hospital in town, it is a lot harder for a nurse to threaten to move to another hospital to get a pay raise. If you have two hospitals in town, it is much easier for the two of them to collude tacitly or even illegally to hold down the pay of nurses. Even in the fast food industry, there is evidence that anti-poaching and noncompete agreements have a deleterious impact on workers’ bargaining power, help to hold down wages, and have been part of the reason that the labor share has been reduced.

In summary, I think this evidence is coming from a variety of different places and a variety of different perspectives. If you are trying to ask a question about the economy as a whole, you are not going to have one definitive data source or one definitive study that is going to answer that question. You have to take a collage of views, and I think that collage involves looking at the pattern of what we have seen in the data that I have talked about in terms of falling labor share, falling investment, rising markups.
Looking at the industry level and seeing whether those phenomenon are industry by industry tied to concentration, and they are. Looking in a deeper, more careful way where we can, and we can and we have done that in a lot of different industries. And then no single story comes out of this, but on balance and on average, this does seem to add up to a reduction in competition, a reduction in dynamism and one that I think that we need to be concerned about and think about ways we need to update our policies to address if we want to have more investment, more dynamism, more productivity growth, less inequality, in addition, of course, to the traditional focus on lower prices for consumers.

Thank you.

(Applause.)

MR. SAYYED: Well, thank you, Jason.

We are going to turn to Tim Muris now.

I will note that although Jason is the only economist on the panel, we have, if I count correctly, five economists, 100 percent of the panel, on our second panel in the afternoon. So we are trying to balance just about everything in these hearings.

MR. MURIS: Well, thank you, Bilal.

I am honored to be here, once again,
following in the giant steps of my friend and predecessor, Robert Pitofsky. We first met in 1976. But it was 1988, working on the second Kirkpatrick Commission, that we realized we shared a vision for the FTC. Not that Bob and I always agreed, of course. Minutes after being sworn in as Chair, I announced to a somewhat nervous reaction that there was indeed a new majority. I said there was no longer a majority of New York Yankee fans on the Commission.

(Laughter.)

MR. MURIS: The FTC has enjoyed great success for decades, and I address a few topics here. First, what durable success means for an agency like the FTC; then the vision that Bob and I shared that has led to the agency’s success. Next, I consider recent challenges from two Ps, paternalism and consumer protection and populism and antitrust. Because both of these “isms” once dominated FTC work, particularly in the 1970s, I discuss history. I lived through the ‘70s and the decade was disastrous for the FTC. Nostalgia expressed in recent literature is misplaced. I have no desire to relive those years and neither should you.

I am submitting a longer paper with lots of footnotes, like lawyers do, and I will make a lot of
assertions for what the footnotes provide support.

But starting with success, it has to be built on something more ephemeral than headlines. A definition that is less ephemeral starts with recognition that an agency needs a clear understanding of and support for its core mission among its constituents. Second, this core must derive from a vision clearly shared, not just today, but enduring through electoral cycles. Over time, perhaps decades, stakeholders adjudge favorably the core mission of successful agencies.

Finally, a successful public institution needs a coherent strategy. The positive agenda must direct the institution at all levels, from the staff to the managers to agency leaders. Without a general strategy and positive agenda, an agency merely reacts. The FTC has such an agenda, the heart of which is to attack practices that harm consumers by hampering the competitive process and violating the basic rules of exchange. The FTC’s success, in large part, reflects the shared vision.

Take antitrust first. Until recently, antitrust reflected bipartisan cooperation. Disagreements existed in close cases, but there was widespread agreement that antitrust should protect consumers, that economic analysis should guide case
selection, and that horizontal cases were central to enforcement.

Regarding cases, Robert Bork once remarked that firms either make war on each other or they make peace. This framework reflects the consensus that the most harmful practices occur when firms stop competing vigorously, making peace to hurt consumers. Horizontal mergers with likely anticompetitive effects are one fertile area for firms to make peace.

Firms also make peace through nonmerger conduct. As with mergers, of course, collaboration is not itself sufficient to assess consumer welfare. Many collaborations are beneficial and the peacemaking of most concern lacks offsetting efficiencies, what antitrust lawyers call naked horizontal agreements. The FTC has pioneered development of the law here, especially among professions, generic drugs, and the process to analyze collaboration.

In rare instances, a single firm with market power can exclude competition to harm consumers. The 2001 Microsoft case, probably the most famous recent example, is -- those kind of cases are important to any antitrust program. A particularly fruitful category of troubling single-firm conduct involves misleading the Government. Misuse of courts and
government agencies is an effective way, this rent-seeking, to stifle competition. Such strategies are not limited to single firms, of course. They are the cheap exclusion, which is a felicitous phrase that people at the FTC have invented. Two antitrust immunities help protect this rent-seeking, Noerr and state action.

Some courts have broadly interpreted these immunities for decades, 40 years, in fact. The FTC has sought to circumscribe both with three Supreme Court victories in state action. On Noerr, the agency saved consumers billions of dollars at the gas pump in Unocal and provided large benefits for pharmaceutical consumers in Bristol-Myers Squibb, among many other successes.

The vision for consumer protection is identical to that in antitrust. When competition alone cannot defer dishonesty, private legal rights help. There is government-developed common law. When the market forces are insufficient and common law is ineffective, there is a role for a public agency, and consumer protection and antitrust naturally compliment each other. Under the FTC’s positive agenda, robust competition, is the first and most important way to protect consumers. And the FTC’s role is crucial, but
it is a referee, not the star player.

The foundation and core of consumer protection is the systematic attack on fraud begun in 1981, and the FTC has continued to expanded in each administration, the fraud program.

The Commission has long evaluated advertising by legitimate businesses, and in this century, has expanded into privacy and -- with many successes, the National Do Not Call Registry being one of the most popular government initiatives in history. But yesterday’s success has become today’s challenge with robo calls clogging our phones. In terms of robo calls, the FTC has been aggressive and ingenious. But, ultimately, robo calls are like spam. Spam was -- ultimately, the most effective way to deal with spam was when the ISPs developed tools to be able to screen out the majority of spam. And in the same way robo calls, I think, will be best dealt with when those who deliver phone services and others develop the legal and technical tools to block unwanted calls.

Now, I have written, with Howard Beales, that -- we criticized the Obama FTC on occasion. But compared to the paternalism of the CFPB, to which I turn next, the FTC has been a paragon of virtue.

Let me turn to those two Ps and their
contrary vision for the FTC. The first is the return of the paternalism of the ’70s. The FTC of that era sought to become the second most powerful legislature. In one 15-month stretch, the FTC issued over a rule a month seeking to transform entire industries along the vision of the then very young people in charge of the Bureau of Consumer Protection. As proposed, most of these rules were market-supplanting with adverse consequences.

There was an exchange in the 1972 National Commission of Consumer Finance, which is illustrative -- and I am not making this up -- there was a debate about whether poor and middle class people should borrow money to buy color televisions with some people saying they should not do it because they did not need such luxuries and other people defending their right to buy on credit color televisions. That, unfortunately, was illustrative.

This paternalism has returned with a vengeance in the CFPB. And by “this,” I mean the Obama CFPB. Whatever one thinks about what is going on, the powers of the CFPB are there. They have not been touched. When President Warren comes in in a few years, if she or someone like her comes in, the incredible power of the CFPB, which is insulated from
any effective control, will still be there.

Substantively, the CFPB has broad undefined powers to regulate. It adds the word “abuse” to the more-defined FTC terms of “deceptive” and “unfairness.” And “abuse” is akin to the FTC use of “unfairness” in the 1970s. And like the FTC, the CFPB -- like the FTC in those days, the CFPB prefers to use its discretion as opposed to a definition.

You can look at the effects of the CFPB on consumer credit, and they have been significant. In the paper, I discuss the qualified mortgage rule and the criticism of the Federal Reserve on that rule in slowing the return of the housing market and the adverse effect, particularly on minorities.

Now, those who defend the CFPB sometimes raise behavioral economics, which is a recent challenge to the benefits of markets. In its extreme version, it is based on the idea that errors that -- and people obviously sometimes make mistakes, but the idea is that those errors are systematically irrational.

Now, some people will tell you that normal economics assumes that consumers have perfect knowledge and are economic calculators. Well, I was schooled by those normal economists and I learned
about transaction costs and imperfect information from those individuals. So I think that parody of economics is simply inaccurate.

Moreover, there are numerous problems with using behavioral economics. For one thing, the behavioralists do not agree on which biases they talk about are relevant. For another thing, there is not empirical evidence to support what they want to do. For yet another problem is that consumers invest in various ways to improve decision-making.

Now, I am not saying there are not important papers and empirical work here to be done. I cite an example in the paper of the credit card market where people do choose accurately and are learning from their mistakes. There are lots of papers like that in the health care market -- I mean, in the credit market. In the health care market, on the other hand, Fiona Scott-Morton has written a very good paper where there are systematic mistakes. Now, I believe that health care markets are different, but I would hope these hearings and the FTC pay attention to those empirical issues.

The second P, populism, is reflected in calls -- and Chairman Simons mentioned this -- on the left and the right, to use antitrust to dismantle the
highly successful companies or at least -- the
so-called tech companies -- or at least regulate them
as public utilities. These are misguided calls. For
one thing, what a tech or digital company is is hard
to know. We have new technologies, but they are being
diffused through the economy. Moreover, these
companies have different positions in the market.
Some have big market shares; some do not.

Equally important, we have been down the
populist road before with disastrous consequences.
Jon Neuchterlein and I discussed some of this history
in a new paper that Jon will discuss in detail later,
and let me talk about the highlights.

Before Walmart and Amazon, another company
used the same kind of tools to become the largest
retailer in the United States for over 40 years. This
company was so important -- the company was the Great
Atlantic and Pacific Tea Company -- that Jon Updike,
the young Jon Updike, used the company as the title
and the setting for his iconic short story which
everyone in my generation had to read in high school
and the -- what happened was A&P success triggered a
backlash and the Government went after A&P for two
decades.

First, they passed the Robinson-Patman Act,
which embarrassed the antitrust world for much longer than two decades and took a long time for the antitrust world from which to recover. This new legislation was not enough. First, the Government prosecuted the A&P successfully criminally. They still were not done. They sued to break the A&P up. Finally, a new administration came in, the Eisenhower Administration, and settled for some vertical divestiture.

The problem was this long war of attrition caused the leadership of A&P to focus on fighting the Government, not on its new competition, and today all that is left of the A&P are the coffees, Eight O’Clock. I think it is called Eight O’Clock. And the company itself is gone.

Now, it is true that the FTC largely abandoned RP in the ’70s, but there are two vestiges of populism that were strong at the FTC in the ’70s and the first was predatory pricing. There were three important cases, probably the most prominent of which was the coffee case. In the mid-70s, Procter & Gamble, then the most feared marketer of consumer goods, had Folgers Coffee. Folgers Coffee expanded into the heartland -- into the east, into the heartland of Maxwell House. Maxwell House, General
Foods responded. Massive price war benefitting consumers enormously.

How did the FTC respond? It sued General Foods for responding against the best marketer in the world. I am not making that up either. And there were other such cases. And a call for a return to predatory pricing is an important plank of the new populist agenda.

Another bulwark of the '70s antitrust was reliance on the Simple Market Concentration Doctrine. And the concentration levels were levels that no one today would regard as significant. The prominent example was four firms with 50 percent share. This theory was sometimes married to a populist animus toward bigness, which led the Commission to seek vertical disintegration of the then very unconcentrated oil industry. And through 1980, the FTC was pursuing deconcentration long after the majority of the economics profession had dominated -- or had abandoned extreme versions of the market concentration doctrine.

Well, let me conclude. With the creation of the CFPB, the FTC has another federal agency performing each mission. The original CFPB model, mirroring the 1970s FTC, contrasts to the modern FTC.
Perhaps the regulatory world runs in cycles, but one hopes that the FTC will not be in a future Groundhog Day where it awakes each morning to 1975.

In contrast, consider the current -- in antitrust, I am sorry, consider the impact of the current reformers who wish to return antitrust to focus less on consumers and more on protecting less efficient businesses. Imagine how the companies they would now punish would have fared in their desired legal environment. Once the newcomers had grown beyond a certain size, perhaps by the late 1990s, their lawyers would have counseled them to be cautious about expansion, innovation, and price cutting, lest they face antitrust liability for disadvantaging their less efficient rivals.

Luckily, because this advice would have badly misstated antitrust law, lawyers did not give it. Let us pray for the sake of American consumers that such advice never becomes sound. Rather than condemn innovation, whether in the 1930s or today, we should applaud. Companies like the so-called tech giants have been built from the ground up in the United States rather than in Europe or China, largely because the U.S. legal environment is stable, predictable, and uniquely hospitable to vigorous
paradigm-shattering competition by all businesses. That legal environment is a hallmark of American exceptionalism. Long may it continue. Thank you.

(Appause.)

MR. SAYYED: Okay. Thank you, Tim. And we will turn to Jim Rill now.

MR. RILL: Thank you, Bilal. It is indeed an honor to be here in commemoration of the work that was done by Bob Pitofsky and leadership of the Commission in 1995. And a particular honor to me, I go back in relationships with Bob in 1969, when he was basically the author of the first Kirkpatrick Report on the Federal Trade Commission. And we worked together in the ABA. And in 1992, he was a very important and direct consultant on the 1992 horizontal merger guidelines. So it is, indeed, an honor to be a participant in these programs.

I want to talk today about the developments in the antitrust world that is created by the globalization of antitrust, which I think is one of the most significant developments in the competition world in the last decade since the first Pitofsky hearings. I think the most important thing we can see is there has been a cascade, a tsunami of antitrust
agencies across the world. In 1995, there was a handful of agencies that had antitrust and some agencies that had an antitrust law -- Japan, a gift of 1946 -- that really did not enforce it. Now, we see something like 130 or more agencies with an antitrust regime. And those agencies that have had an antitrust regime are increasingly engaged in enforcement, often with very controversial, very controversial results.

So what we need to think about and what I think needs to be thought about at the Commission and the other antitrust agencies is what is the response of the antitrust agencies to this global tsunami of antitrust agencies around the world? And I do not want to suggest that that is a bad thing. I think it is a good thing properly founded, properly principled, properly directed, because I think a sound competition policy is essential to the operation of a market economy.

So what have the agencies done and what is the challenge facing them in the future? The agencies were responsible, I think particularly the FTC and the Department of Justice, in the formation of the International Competition Network. In 2001, following on the report of the Department of Justice International Competition Policy Advisory Committee,
the ICPAC, that was put together in 1997 and issued
its report in 2000, the International Competition
Network was founded on the platform of the Fordham
Program in 1991 with 12 members. Tim Muris was very
instrumental in putting that together.

Now, we have well over 100 members, 100
agencies that are members of the International
Competition Network. The ICN has been extremely
important in producing guidance that is based on
market economics and due process for its member
countries and for other countries around the world,
especially soft guidance, but nonetheless effective
and responsible guidance.

The ICN has produced merger notification and
procedure guidelines, has put out, through its
unilateral conduct working group, guidelines on
predatory pricing, guidelines on dominance. Most
interestingly, I think, are the work that the ICN has
done in the area of procedural due process and the
antitrust -- the working group on agency
effectiveness, which was headed -- a task force headed
by the Federal Trade Commission. The work of Randy
Tritell and Paul O’Brien has been extremely effective
in putting out guidelines on due process, guiding
principles, annotated guidance and similar documents.
These are extremely important contributions that are made towards convergence, if not harmonization, in the antitrust world.

Similarly, the OECD, again, under U.S. leadership, has put out a protocol on hardcore competition; also, documents on the merger notification and procedure, really anticipating ahead of time the ICN’s work in that area. The OECD has also issued a very monumental report on -- under the leadership of then Chairman -- then Assistant Attorney General Varney on due process and procedural fairness.

Most recently in 2017, the Department of Justice and the Federal Trade Commission issued revised guidance for international enforcement. This guidance document, I think, broke some new ground in providing for the Government’s involvement in advocacy across the globe; that it would attempt to foment adherence to sound principles of not only process but substance, and would advocate positions as the occasion arose in particular situations.

It extolled the benefit of bilateral agreements, which the United States antitrust agencies have several, calling for cooperation in particular cases. It set forth principles of comity and
established a principle that criticized 
eextraterritorial reach of antitrust enforcement where 
that extraterritorial reach was not based on immediate 
impact, substantial, reasonably foreseeable direct, 
immediate impact on the host nation, consistent with 
our legal principles in that particular area.

On the question of its advocacy, what we 
have is a fairly general statement; however, not one 
that gets into the specificity of when and how that 
advocacy might be best advanced and effective and 
implemented. And I think that is a challenge, as we 
will indicate going ahead.

The ICN, the International Competition 
Network, is continuing its effort towards promoting 
convergence in substance and procedure through 
workshops and similar efforts to bring about 
convergence and harmonization and sound principles. 
Nongovernmental agencies, as well, since the last time 
of this, since the 1995 hearings, increased their 
efforts. The U.S. Chamber of Commerce has issued a 
so-called expert report. I say so-called because I 
was on it, so therefore I have to be modest.

(Laughter.)

MR. RILL: An expert report on due process 
and the way forward, somewhat controversial in that it
advocated the establishment of a cabinet-level
coordinating committee for dealing with international
antitrust. I think one issue that I personally have
some -- although I was on the report, I have some
skepticism as to its efficacy, although there should
be more coordination among the agencies of the Federal
Government. The American Bar Association has had
several task forces, several reports in this area, a
due process report, and currently, a program going
forward soon to be, I think, finalized on sort of a --
if you will, not a report card, but an analysis of the
implementation of due process, a task force headed by
my partner, Jon Taladay, and Melanie Aiken.

Also, the ABA is soon to present a paper on
the use of public policy issues in antitrust globally.
That is the extent to which non-antitrust factors,
lying under the flag of antitrust, tend to adulterate
-- that is my pejorative, not theirs, I expect -- tend
to adulterate the efficacy and substantial foundation
for antitrust enforcement. The IIC, International
Chamber of Commerce, has issued a report in this area
that is of significance and extols, again, the need
for global consensus of fair procedures. So the
private sector is active. Is it enough active? No.
But increasingly active in this particular area.
So what are the challenges going forward? There are limits, I think, to the efficacy of soft guidance, of soft convergence. It is necessary, essential, but is it enough? Is it sufficient? My answer to that is I think you need to go beyond it. There is no structured mechanism right now for establishing, if you will, a basis for evaluating the extent to which the guidance of the various international organizations and national organizations that I have referenced are being actually implemented and followed in the nations around the world, including sometimes, I might say, the United States.

We see the actions in China involving a merger by Coca-Cola, which, I think, has questionable economic foundation; the denial of a transaction involving NXP, which had been approved by every other agency in the world on grounds that are difficult to discern any kind of link to sound antitrust. We see in Korea an expanded reach for extraterritoriality in an area where there may be no effect whatever on consumer welfare in Korea. We see in Taiwan enforcement actions with no printed, published, and maybe not even any practiced sound standards for due process. All of these issues, I think, are a challenge, a huge challenge to global antitrust
including the United States going forward.

And sometimes, frankly, the United States has been criticized for its use of CFIUS -- criticized overseas by its overuse of CFIUS to, in effect, undermine sound antitrust analysis and engage in national championship work. I am not sure I agree. I do not agree with that in many respects, but I know it has been criticized overseas. And recently, in a speech, former Director General -- former Commissioner for Competition of the European Union Mario Monti said that Europe has much sounder antitrust leadership, foundation, correctness than the United States. We have to be aware of that and be sensitive to it.

So what should be the response going forward? And I do not pretend to have any particular wisdom here, but throw out some ideas and actions that I have seen. First, there is an increasing, I think, demand, interest for the United States agencies to become directly involved in individual enforcement actions overseas where the effect is on important interests to the United States, not to protect the U.S. champion, but where there is an important interest to the United States that bears on effective competition policy.

We have, in our agreements and in other
international principles, mechanisms for cooperation, notification, and transparency. These, I suggest, should be implemented. They have been implemented by the United States in Boeing/McDonnell Douglas, for example. The U.S. was very much involved in attempting to, I think, say, put on the right track the European Commission’s analysis of that transaction, even to the point where this guy who was an antitrust professor at Arkansas, I think his name was William Clinton, got involved in lobbying before the European Commission on that transaction.

The actions of the Federal Trade Commission in certain circumstances have been salutary. I think in discussing the matter involving Intel in Japan, it was an effective outcome. Press reports indicate there was an effective outcome involved in U.S. involvement with the Qualcomm principal issue in China. And of course, the -- I am not sure how effective -- well, I think it was, I guess, effective because it brought about greater convergence and understanding and consultation, the U.S. criticism of the European Commission’s action in GE/Honeywell.

We must respect foreign agencies’ interpretation of their own law. We do not necessarily need to surrender to it in our efforts to
converge, to consult. I think the decision by my
classmate, Ruth Bader Ginsburg, in the vitamin C case,
sets a good principle for the question of respect, but
not total deference to foreign law. So I think what
we need to do going forward, what I would suggest
would be an appropriate role for the Federal Trade
Commission to consider the really excellent work it
has done and the recent work that the Department of
Justice has done. I think the Federal Trade
Commission under the guidance of Randy Tritell has
made great strides in this area, but the question is
testing the implementation.

And I would like to close with reference to
the initiative that is recently been announced and
promoted by Assistant Attorney General Makan Delrahim
to establish a multilateral framework for procedure in
antitrust cases. He recently spoke at the Fordham
Conference indicating that there is significant
progress in that area, that some 12-or-so countries
are signing on. We have not seen what they are
signing on to in detail yet, but signing on to the
principle is a major first step by a national
antitrust agency to attempt to persuade other
countries that there needs to be some system, joint
system, for assisting in the implementation and
review, not a scorecard, but a review of the extent to
which the guidance documents, the so-called soft
guidance, is actually adopted and fomented in the
international arena.

I think that is the challenge going forward
to the FTC, to the Department of Justice, and I think
it is a challenge of enormous importance for
international antitrust and international competition
policy.

And so with that, thank you very much.

(Applause.)

MR. SAYYED: All right. Thank you, Jim.

Alysa, your convenience -- and I would note
that I am very envious of the ICPAC, that they had
apparently three or four years to do their report.

(Laughter.)

MR. RILL: It has legs.

MS. HUTNIK: So switching gears to consumer
protection and privacy -- and like most consumer
protection lawyers, I have pictures.

(Laughter.)

MS. HUTNIK: So I do want to, first,
strongly support the Commission’s objectives for these
hearings. I am a firm believer in that there is value
in self-examination and being willing to both solicit
and consider constructive feedback from constituents and practitioners inside and out. And, indeed, from a similar process, the 1995 hearings positively shaped subsequent FTC policy and approach, and one would expect similar outcomes from these hearings.

So taking the time machine -- let’s see if we can get there -- back to the ‘90s -- and while some of us might have had Mariah Carey on the radio, hopefully nobody is going to raise their hands on that, here at the FTC, the 1995 hearings had technology front and center in the focus. And there, the focus was innovative changes and convergence happening with the online marketplace, television, cyberspace, even radical new technology issues such as purchasing compact disks over your telephone and, notably, even then the FTC was already anticipating issues with the amount and the type of data collected online. Who is accessing that data? How many people were accessing that data? Cybersecurity issues with the data and the associated other consumer protection considerations.

The resulting Pitofsky report from those hearings provided an effective roadmap for consumer protection business guidance and policy for over 20 years. Tim Muris mentioned durability. This policy
has been extremely durable.
That report centered on several key tenets.
One, consumer sovereignty. This is a point that has been echoed in the 1980 FTC policy on fairness and in decades before and in adjudications and business guidance. The idea that we would give consumers access to material information and allow them to make their own choice without regulatory intervention, to do it conveniently.

Two, the agency would prioritize enforcement to fight fraud and deception and unfair business practices that caused consumers harm. The agency also would support industry self-regulation as a way to make limited agency resources go further and to provide businesses with greater clarity on compliance expectations. And, finally, the Commission would provide consumer education to empower consumers to navigate through emerging marketplaces.

And while some might argue that the application of these concepts has ebbed and flowed over the years, they are viewed by many as the successful foundation to the FTC’s approach in consumer protection. It is an approach that is largely consensus-based. It is not largely political. It is measured and it intentionally considers
It is also a framework that supports our nation of innovation. We are experiencing and witnessing a technology revolution that has no end in sight in a robust marketplace that provides feedback when a line has been crossed through both consumer choice, a vibrant press, and government enforcement. And while there may be growing pains from time to time, and sometimes criticisms that the FTC does not act fast enough to prevent unlawful business conduct, it is the flexible nature of the FTC’s Section 5 authority that is such a critical part of our country’s economic success. But like any balanced framework, we should continue to ask tough questions to determine if and what changes may be warranted so that the agency’s consumer protection mission can continue to be fulfilled for the next 20 years.

And in looking at the comments filed in response to these hearings, they certainly raise several themes. One of the main themes that Chairman Simons started out with was the concept of technology, whether the technology marketplace of today and tomorrow requires a change to the FTC’s organizational structure and allocation of resources. And just as
the 1996 Pitofsky report following those hearings observed that there would be challenges to the agency’s consumer protection mission with the evolving technology marketplace, today’s cyberthreats and technology changes and innovations will absolutely test the FTC’s expertise and its resources.

Technology plays an integral part of the consumer experience whether at work, at home, in educational settings, health care, facilitates the way we interact with each other and with the world around us. So it is no surprise then that technology should play such a key role in most of the FTC’s consumer protection enforcement cases. And given the technology emphasis of commerce today and tomorrow, does the current FTC’s organizational structure and investment of resources and technology expertise reflect the present and foreseeable needs in order to fulfill the consumer protection mission?

One of the second themes, and many might call it a pain point, reflected in the comments is the ever-growing patchwork of consumer protection and privacy laws around the globe and here in the United States. The 1996 Pitofsky report recognized the obstacles that a multitude of conflicting laws would pose for commerce, particularly for small and
medium-size businesses and new entrants.

Today, these compliance obstacles have only
grown, particularly in the area of privacy where there
appears to be a race to become the most comprehensive
in regulating data practices. And given the examples
that we are seeing in Europe, California, and
elsewhere, it remains an open question on whether the
Commission’s risk-based approach will have to yield to
a national and uniform approach to privacy.

That may be easier said than done with
respect to passing federal legislation, particularly
in an election year. So in the near term and in the
absence of a uniform federal standard, what type of
guidance and policy leadership can the agency provide
that could be helpful to the national and global
discussion on the costs and the benefits of more
prescriptively regulating business practices.

And the third theme from the comments
underscored a point that this agency has always faced:
Where to focus its enforcement efforts, what shall be
the priorities given finite and limited resources.
And with lots of shiny objects and headlines to choose
from, the agency has most advanced its consumer
protection mission when it has focused on business
practices causing real harm.
Financial and physical harm have rightly had
the agency’s attention, but importantly, given the
role of technology in our lives, the agency, under
then acting Chairman Ohlhausen, has also explored how
informational injury can cause real harm and how the
agency can measure such harm and seek to deter and to
remedy unlawful business practices with such results.

Doing more with less also might involve all
aspects of the Commission’s in-house expertise with
more visible collaboration with the Bureaus of
Competition and Economics. Indeed, the unfairness
prong of Section 5 requires that competition be taken
into account, and more transparency on this
involvement and the competition analysis and consumer
protection cases would provide helpful guidance to
businesses which, in turn, will help consumers.

The last theme that was raised, and that I
will touch on, by the comments and which played an
important role in the Pitofsky report as well is how
important the FTC supporting and incentivizing company
participation and meaningful self-regulatory programs
is. They are not a substitute for government
oversight, but they can enhance the agency’s consumer
protection mission with a lot less cost.

History has shown that self-regulation is
more nimble and able to move more quickly to address
innovation and technology changes. And when the FTC
promotes the use of self-regulation and incentivizes
companies to embrace such standards, industry responds
time and time again and consumers benefit directly
from this carrot rather than stick approach,
incentivizing rather than purely focusing on punitive
deterrents.

So I will keep my comments shorter. This
leads me to concluding remarks that with the rapid
changes that were happening and all the discussion
around technology, we are largely discussing many of
the same types of issues that were discussed in some
form at the last set of hearings in 1995. And as we
hear from many voices during these hearings, I can say
from my personal experience, working with startups,
working with large companies, new entrants, those that
have been around for decades, most companies are
motivated to do the right thing while also remaining
competitively viable.

Straightforward laws that do not pick
winners or losers, clear regulatory guidance, and
vigorously support of self-regulation enables companies
to achieve those goals without unnecessarily fencing
in opportunity or innovation. And for the fraudsters
and companies that are bent on causing consumer harm, the FTC has its tools, existing tools to address that. Thank you.

(MR. SAYYED: Okay. Well, Alysa, thank you. And thank you for getting us almost back on schedule. As my friends know, being off schedule just a few minutes would be a major achievement in my life. (Laughter.)

MR. SAYYED: So anyway, we are going to take about a ten-minute break. So let’s come back here just a little slightly after 10:30. And we will start up again. (Brief break taken.)

MR. SAYYED: Okay, thank you. I just want to remind everybody that we do have some of my FTC colleagues collecting question cards. So if you have a question for the panel members, just write it on the card, raise your hand, we will pick it up, and we will try to get to it.

But before we turn to both sort of a panel Q&A and audience Q&A, we are going to ask separately, both Jan McDavid and David Vladeck to both comment on what they have heard and, honestly, comment on whatever they would like to comment on. But I am sure
it will be germane.

So I will first turn it over to Jan and then I will turn it over to David when Jan is complete.

MS. MCDAVID: Thank you, Bilal.

I want to applaud the Federal Trade Commission for again using its statutory authority to consider whether changes in our economy require adjustments in the FTC’s enforcement priorities. Such hearings were part of the FTC’s original statutory mandate and have been used very effectively throughout its history, most notably in the Pitofsky hearings that were discussed extensively this morning.

I am honored to participate again as I did in the Pitofsky hearings, and I am returning to my antitrust roots here at Georgetown because my antitrust career started my final semester in law school at Georgetown when I studied antitrust law with Bob Pitofsky.

Hearings provide the FTC an opportunity to step back and consider broad philosophical issues without the pressure of facts and time deadlines arising out of particular proceedings. That is a real luxury that most agencies do not have, and the FTC does. That kind of introspection allows the FTC to identify opportunities for improvement. It also
offers an opportunity for democratic participation, which is one of the objectives recently outlined by Commissioner Chopra in his paper last week.

I speak here as a practitioner who advises clients every day on antitrust issues. And I share the FTC’s view that competition produces the best, most innovative, lowest-priced products and services for consumers.

Most antitrust enforcement actually takes place in conference rooms in law firms and boardrooms in corporations where people like me advise our clients on where the lines are and how they can achieve their business objectives without crossing those lines. Our ability to do that effectively is significantly enhanced if our clients know that the antitrust cop is on the beat.

That was true in the Bush, Clinton, and Obama Administrations because antitrust has always enjoyed bipartisan support. And based on early impressions, it is also true with the current Federal Trade Commission and Antitrust Division.

I have always viewed the antitrust laws as sufficiently flexible to adapt to changing market conditions, such as those involving the growth of technologies or foreign competitors. It also has been
sufficiently flexible to be applied across a broad range of industries involving defense, health care, consumer goods or technologies, which do not particularly have anything in common. The antitrust statutes, as they have been interpreted by the agencies and the courts in recent years, in the last 30 years or so, provide a framework that knowledgeable counsel can apply as we consider the unique facts brought to us by our clients. And, of course, we also bring to bear the economic concepts that are so important to underlying antitrust analysis today.

Over the course of my career, I have seen the development of sound antitrust doctrine rooted in a principled analysis and, above all, the positive role that economic analysis played starting really with the Supreme Court’s decision in General Dynamics, which was decided just before my final law school exam by Bob, and the GTE Sylvania decisions, and leading to iterations, for example, of the merger guidelines.

In contrast, one of my mentors, former FTC Commissioner Tom Leary, said that during his early career, when they would be defending a merger before the agents, they would say, God forbid it would achieve any efficiencies, because that was suspect in the ‘60s and early ‘70s.
As I was trying to do economic -- or antitrust research as a young lawyer and as a law student, I had a very hard time discerning any consistent thread through the cases I was reading and that made it really hard to advise clients. That is not true anymore because we have a framework that lawyers and even our clients understand.

During my career, antitrust analysis has been grounded in fundamental principles and focused on consumer welfare. Contrary to the concerns expressed by some, prices are not the only touchpoint in our analysis. We have handled many matters in which issues like innovation and product quality were much more central than price. And in my experience, the agencies have done a very good job of identifying those issues and resolving them in the matters. The way they have done so has also made it possible for advisers like me to tell our clients where the antitrust lines are.

I am a progressive Democrat. So you might expect that I would be applauding the development of populist antitrust theories. But I think that including populist antitrust concepts would make the task that I undertake for my clients much more difficult. Instead of well established principles,
grounded in consumer welfare and sound economic analysis, we would be applying amorphous concepts of bigness and fairness, some of which turn traditional principles on their heads, such as lower prices that do not have the underpinnings of a predatory pricing analysis or penalizing large successful technology companies simply for being successful because they created new products and services that consumers generally desired.

This could return us to the era of Von’s Grocery where the dissent lamented, “The Court grounds its conclusion solely on the impressionistic assertion that the Los Angeles retail food industry is becoming concentrated because the number of single store concerns have declined.” This led Justice Stewart to complain that “The sole consistency I can find in antitrust laws is that the government always wins.”

But even that would not be true in a populist system because ultimately we do not have an administrative system in the United States. We have a system of enforcement. And the agencies and private plaintiffs bear the burden of proof. In Europe and many other countries, the government can simply say no. Here, they have to go to court. And they do so grounded in facts and economic analysis that supports
their case but with a framework that everyone understands.

Where there are legitimate concerns about fairness or employment effects, for example, those issues should be addressed under different regimes as is done today with the CFIUS, unless, as in the case, for example, of the no-poach cases, there is a legitimate antitrust concern directly affecting employment and arising out of particular conduct.

Antitrust is a well-calibrated tool to achieve competition and consumer welfare. But it is poorly designed to tackle social issues that are more appropriately addressed under other kinds of legislation. We should respect the limitations of antitrust.

And, finally, antitrust analysis that includes amorphous concepts of bigness and fairness could lend itself to politically motivated enforcement, which we certainly should eschew, especially now in the current political environment.

Thank you.

(Applause.)

MR. SAYYED: David, we will turn to David now.

MR. VLADECK: Okay, thank you. Let me start
by thanking Chairman Simons for holding these hearings. I think this is the right way for the Commission -- for a new Commission to get its bearings and to figure out what its priorities are going to be and what its agenda should be.

I also think it is right to honor Bob Pitofsky. His legacy still loomed large at the FTC when I was there; I am sure it still does. The influence he has had not simply on the antitrust side of the agency but on the consumer protection side is enormous, and it is only fitting to do this here at Georgetown Law School.

So I generally agree with Alysa and I am going to try not to repeat the points that she made. What I would like to talk about are what I think are three main challenges the Commission faces going forward. In the first -- and this I think Alysa brought up -- is tech, tech, tech. Virtually everything the agency does today has some connection with emerging technologies.

When Chairman Leibowitz and I got to the FTC, we did not have a tech infrastructure. We did not have a single technician on staff. To the extent we needed to engage in forensic analysis, we had to outsource it. Today, because each of the successive
Chairs has built upon the tech infrastructure that we started to build, the agency has more technology capacity than ever, but I still wonder whether it is sufficient.

The agency needs deep expertise in things like artificial intelligence. It needs the forensic ability to conduct investigations and data breaches and other kinds of consumer injuries. We need better forensics, better tools. And so one challenge I think the agency faces going forward is to make sure that its infrastructure, its resources match the challenges that the agency faces. So I think that is one.

One of my former colleagues, Professor Lorrie Cranor, suggested that maybe it was time that the FTC added a new bureau, a bureau of technology. I do not know whether that is the right way to address the technology deficits that the FTC faces, but that is something that ought to be considered.

Second, the challenges of protecting consumers in a digital economy. Now, the FTC, in 2012, issued a report that tries to set out a framework about how consumer protection matches the FTC mandate. And I think there is a lot of very valuable advice in that report. I would urge the new Commissioners to dust it off and take a look, because
it provides, I think, a blueprint at least for dealing with some of the difficult questions the Commission is going to face.

For example, automated decision-making. I am not necessarily a foe of artificial intelligence. After all, we all know that human decision-making, eh, it is not necessarily great. Right? But it provides all sorts of challenges for regulators. It is a black box system. You cannot interrogate an algorithm. And it can be a breeding ground for disparate treatment that is based on impermissible factors. And rooting out those kinds of problems is very difficult for the agency.

Data-driven offers in pricing. The marketplace is full of variable pricing and variable offers. I mean, there have been challenges about Facebook’s ads for housing and so forth. These are very difficult challenges the agency faces to ensure fairness in the marketplace.

And the lack of transparency in the algorithmic decision-making process runs a real risk that at least some consumers are going to face tyranny by algorithm. The Commission needs to figure out how it can be an effective regulator in this space.

It faces enforcement challenges. Yesterday,
there was a New York Times article about the New
Mexico Attorney General bringing a COPPA case and
criticizing the FTC for not beating his office to the
punch. Well, COPPA enforcement has been a thorn in
the side of the agency since apps were developed. The
app market -- you know, the app developer market is
highly diffuse. There are thousands of people making
apps, some in their parents’ basement, and it is very
hard -- unless you are going to carpet-bomb the
industry, to have an enforcement regime that really
works well. And now the agency has brought many, many
COPPA cases and it has done so against high-profile
violators. But that is a problem.

And, you know, Alysa talked about the
usefulness of self-regulation. This is an area where
we have encouraged self-regulation. We actually
detailed a lawyer to work out of our San Francisco
office to be an outreach person to the app development
community, encouraging some type of self-regulatory
body. We did not succeed. So there are some
enforcement challenges the agency faces as well that
are magnified by outdated statutes that the agency has
to enforce.

Neither FCRA or Gramm-Leach-Bliley nor some
of the other statutes that were enacted, before anyone
could envision a digital economy like this, need to be
updated, and I would hope that the Commission can work
with Congress to do so.

I think the lack of civil penalties in
Section 5 cases has been a serious lack for the
agency, particularly in data breach cases. The RAND
Institute has done a number of studies making clear
that the economic incentives particularly for box
stores and other kinds of consumer-facing companies do
not push hard enough to ensure robust security
defenses. That is, it is economically rational to
risk a data breach because the cost of strengthening
one’s defenses may outweigh it. I think civil penalty
availability in those kinds of cases would add a
necessary deterrent and might help stem the tide of
rampant ID theft.

I think we need to update the unfairness
doctrine. You know, it is interesting because the
unfairness doctrine seems to at least be interpreted
by some to require some form of economic or
economic-like harm. But the statutory mandate of the
FTC is to prevent unfair and deceptive practices, not
try to remediate them when they take place. And there
are many harms that are just not actually well
remediated by money.
I mean, for example, the Ashley Madison data breach. You know, this was a secret dating site. Well, marriages broke up. People committed suicide. These are serious harms that ought to be prevented. There is at least an argument that the unfairness statement as it is currently constituted does not really take into account some of these reputational injuries that have been, you know, made possible by a digital economy.

My last point is the regulation of big data. There is now pervasive data collection. It is ubiquitous. In fact, the last bastion of privacy, our homes, is now yet another site of data collection. People have always on/always off devices. The internet of things are going to put sensors in people’s homes. All of this, you know, is -- they serve useful purposes. But they involve enormous data collection. And we need to figure out how to protect consumers in this area of ubiquitous data collection.

We do not have laws that really deal with this. The aggregation of data is a real sort of enticement to data thieves. So Paul Ohm, who worked at the FTC when Jon and I were there, wrote a law review article about ten years ago where he forecast there might become a time where there would be
databases of ruin. That is, that the data collection would be so ubiquitous that whatever fact that you would be mortified to have revealed to the public or to other people, that those facts will be in a database.

Well, given the ability of data-sharing, data lakes, the ubiquitous movement of data, there really is no answer to those questions now. And those are questions that the FTC has to address. When I was at the FTC, we did a 6(b) on, you know, data collection by data brokers. And I think that was a good start.

And I think one of the things that I would urge the Commission to think about is using its 6(b) authority to get a better handle on basically just how consumer data flows. Where does it go? Who has access to it? What kinds of constraints, if any, ought to be imposed?

So I think the -- I commend the FTC for holding these hearings. I think this is going to be a challenging but interesting time. And I urge that the Commission think about these things.

Thank you so much.

(Applause.)

MR. SAYYED: So, thank you, David.
What I would like to do now is -- you know, I have a series of questions and, in frankness, we have shared them with the group in advance. But, of course, they were prepared before I knew what anybody would say.

What I would like to do is first ask the panelists maybe to ask questions of each other or comment on what others have said. And because he has to leave at 11:30 and, in fact, squeezed us in to do this panel, I would like to ask Jason if he has some thoughts on what he has heard, particularly because he comes from a different perspective or different background than the rest of us. And then I will ask folks maybe to put some questions to Jason.

MR. FURMAN: Yeah. I guess we have heard two references to populist antitrust, and I am not sure whether I agree or disagree with those comments. If those comments are saying you should replace the current disciplined approach with a sort of woolly-headed, if you do not like the company and you want to promote democracy and ground your approach in something big and cosmic like that, then I certainly agree with you.

If what you are saying is that there were certain papers written decades ago and those papers
are still 100 percent correct and we should base all
of everything on these tablets that were handed down
and any change would be populist and barbarian, then I
think I quite disagree with that.

In fact, even some of the assumptions and
arguments that people like Bork and Posner and others
made, you know, economists in IO have long known that
they were quite fragile and based on very specific
assumptions that were not very robust, that the
world was much more complicated. As you said, Janet,
people do take into account a broader sense of
considerations. But to some degree, economists need
to do a better job of understanding those broader set
of considerations, too.

So I think this is an evolving area as the
Chairman said at the very beginning of the remarks. I
think that continued evolution is important. I think
that if some of the macro evidence data and
motivations that I said lends more impetus to that, I
think that would be a welcome development and an
important one. But I still would then use that to
motivate using micro market-by-market techniques to
think about cases, not some of those types of
macrodata. But I do not think that is irrelevant in
motivating us to push further and think harder about
ways that -- and, frankly, enforcement has gotten more lax and that has had deleterious consequences for the economy.

MR. SAYYED: Tim, it looks like you want to react.

MR. MURIS: Sure. Let me address the Chicago point about the sacred texts. Bruce Kobayashi and I published a paper subtitled, Time to let go of the 20th century. And --

MR. FURMAN: When did you publish that?


(Laughter.)

MR. MURIS: I think Bilal sent it to you. And what we said there essentially -- look, the way to think about Chicago is the way to think about the American revolutionaries. There was this revolutionary band of brothers, but what they were -- they were opposed to the old order. And the old order was overthrown. But once it came to running a government, you know, they split like Adams and Jefferson.

If you take, you know, a list and we put this in the paper, Baxter, Bork, Bowman, Posner and Stigler, they either had not thought of or they disagreed radically on how to approach antitrust
policy. Mergers, for example, those guys were all over the lot from the most aggressive, Posner, to the most restrictive, Bork. And the point was they just had not thought about it. And when they did, they disagreed.

And so this idea, which is ripe in this populist literature, that there is this economic cult from the University of Chicago, which dominates antitrust thinking, is simply inaccurate.

MR. SAYYED: Any other reaction or anybody would like to put questions to --

MS. MCDAVID: I agree with Tim, but I also agree, Jason, that this has to be evolutionary and it is not -- we do not regard them as the tablets that came down with Moses.

Economic theory has evolved. We have had three iterations in the merger guidelines, and the ones we have in place now actually reflect how the agencies have been analyzing mergers for quite a long time, and they introduced new concepts such as unilateral effects analysis that were not in the original versions.

So we do evolve, but I am very concerned about the inability to discern the consistent thread that I found when I was a young lawyer and very
worried about how clients are going to have to handle
this stuff.

MR. SAYYED: Well, Jan, since you have
touched on merger guidelines, let me ask a question
that I have asked people to think about. And this is
not meant to reflect on a particular administration or
not, but in 2010, the previous administration revised
the horizontal merger guidelines and changed --
whatever you want to call it -- safety thresholds or
presumption thresholds from an HHI of 1800 -- post-
merger HHI of 1800 being, under some conditions,
presumed anticompetitive to an HHI level of 2400.

And I will say also in fairness, I think Tim
Muris and I wrote an article suggesting that some
change was appropriate and we may have landed it
around 2400.

But let me put that out there. I mean, do
people think the thresholds in the merger guidelines
should be adjusted downward?

MS. MCDAVID: Well, I deal with the
guidelines all the time. And my view of the HHIs is
that they are useful as an initial screen to identify
the deals that need additional scrutiny. And then
they show up in the complaint if the agency challenges
the deal as part of the basis for why they are doing
so. And in between, we do not talk about them very much because we talk about competitive effects analysis.

Where is the real competition that takes place? And having numbers attach to it and squaring market shares creates a sense of precision about this process that simply does not exist in reality or in the way the guidelines are applied.

So I do not think it is necessary. I mean, I have clients who come to me and say, well, as I read in the HHIs, we have an 1800. And then I discovered that they have defined the market in a way that the agencies would never agree with, and therefore, the client has assumed something will be fine when, in fact, they are going to run into a real buzzsaw.

MR. MURIS: Look, the guidelines do tell you something significant if you forget the HHIs and think about it. I heard Jon Baker give a good talk on this Friday after our retrospective analysis came out, when I was Chairman.

Think about it in terms of the number of significant competitors. Bill Baxter, we argued with him when he put the guidelines out in '82. Six to five was his marginal case, and we wanted to make it five to four. But Bill was a structuralist, much more
Jim Rill, essentially when he put out his guidelines, made it much more the focus that Jan was talking about. But when they did the guidelines in 2010, they were relying on data that said four to three was the marginal case. And, in fact, Jon Kwoka, among others, had published papers out of the FTC’s line of business data that showed the importance of a strong number three to ensuring competition. But it is the marginal case. There are lots of four to threes challenged and occasionally higher.

But it does turn on a lot of factors. But the number of -- if you want very simple tests, the number of significant competitors and how consumers react, if they are significant business consumers, those -- the answer to those two questions predicts a fair number of the results.

MS. MCDAVID: And on the point of number of effective competitors, the FTC has done a number of reports looking back at its data, about the deals it challenged, the deals that it did not challenge, and what the factors were. And those papers, which talk about how many competitors there were in deals that were challenged, whether there were customer
1 complaints, whether there were bad documents, a range
2 of other things, they are really useful guidance.
3 And it is terrific work that the FTC has
4 done. I wish the Division would join in doing that
5 kind of analysis.
6 MR. FURMAN: I mean, just briefly on the
7 previous point. I thought, Tim, you were much more
8 modest about the Chicago School in this discussion
9 than you were in your remarks. In your remarks, you
10 actually claimed that they had accomplished quite a
11 lot in terms of changing the way antitrust was. And I
12 think that is right. That was the Chairman’s remarks.
13 MR. MURIS: Well, they overthrew the old
14 order.
15 MR. FURMAN: Right.
16 MR. MURIS: But that was 40 years ago.
17 MR. FURMAN: Right. But, anyway, I do not
18 think we need to -- so I think sort of everyone treats
19 them that way. I do not think one needs to relitigate
20 that. I think the question is, do we need to make
21 some changes?
22 On the HHI, I would just do the average of
23 whatever Fiona and Jon think it should be.
24 (Laughter.)
25 MR. FURMAN: But I think the argument for
raising them also involved focusing and making sure you are refocusing and being vigorous above them in terms of the screen and everything else you are taking into account. So I think it is not just the number, but a whole bunch of other things.

And some of that is also, frankly, dependent on the courts when you are bringing hospital cases and you are still losing hospital cases, even when you have, I think, a unanimous Commission voting for them. That means there is a set of thinking, some of which was shaped in the past and is -- you know, that needs to probably be modernized and updated to deal with changing research, including issues like wages, which I think is an important one when thinking about hospitals.

MR. MURIS: Well, but the FTC is mostly winning, as the Chairman said, mostly winning hospital mergers. The problem was there was this silly belief in the Elzinga-Hogarty test. And we got Ken -- I went to Ken and Ken testified he had two very simple propositions. He said, I cannot believe anybody would apply that test to hospitals. And, second, I cannot believe anybody would pay me to say anything so obvious. And those two propositions, believe it or not, helped carry the day. And two circuit courts
very recently blessed the FTC’s opinion.

But, Jason, you are right in the sense because these cases are decided out there by individual district court judges. The FTC actually had to overturn some of the district court judges in circuits. But I think the FTC’s way of looking at it is correct and it mostly wins. But, obviously, in the world of individual judges, you can get some variance.

MR. SAYYED: Jim has some comments.

MR. RILL: Just real quickly. I think what probably was not recognized very much in the change from the ’82 guidelines to the ’92 guidelines is the treatment of the structural paradigm. You recall in the ’82 guidelines that at the certain concentration level that the guidelines provided, there would be a likelihood of challenge. In the ’92 guidelines, we said this is a presumption that is carried on with further analysis, and went into then the other factor, including entry and competitive effects, competitive nature of the marketplace, which I think was a major change from the ’82 to the ’92 guidelines.

I think one of the interesting things about the 2010 guidelines -- very creative, and a revision was probably in order -- is the distinction between the analytical framework of the guidelines and the
analytical framework when the Commission goes to court.

The 2010 guidelines are very, very -- and I daresay critical, but somewhat almost dismissive of market definition issues as a proxy for the base for the analysis. Shortly after those guidelines were analyzed, the Commission went to court. If you look at its brief in the Polypore case, it does not appear that the 2010 guidelines existed. There is very much the traditional analysis approach, ’82, ’92 approach.

So I think there is a distinction that one has to draw between what the agencies do and their analysis which is obviously extremely important if you do not want to go to court and the practice that the agencies put into their court pleadings, which are more traditional because I think judges have become comfortable in accepting the analytical framework of the ’82 and ’92 guideline approach. So I think there is a distinction there that we have to be aware of.

MR. MURIS: Bilal, if I could, I do not want to forget the other mission. The FTC is a bigger consumer protection agency in both dollars and people than it is antitrust. If you ever go out as an official -- and we have some here -- and do an interview, unless there is a big antitrust case in the
press, the questions are overwhelmingly going to be
about consumer protection.

I think David is 100 percent right about
strictly nonmonetary protection. As a young scholar,
I wrote a couple papers about how contract law
protects subjective value. I am not sure you need to
revise the unfairness guideline. I think another
speech would be useful because the FTC has protected
that, you know, nonmonetary as David mentioned.

The first security breach case that we
brought -- and it was when I was Chairman -- involved
Eli Lilly where what happened was a nonentrant, not
just poorly trained, an employee who was not trained
at all, managed to send out a list to the world of --
I think it was 600 people who were taking Prozac.
And, you know, e-mail addresses are very easily
identifiable. A lot of people have their names,
certainly their last names. And, obviously, we
thought that was private information that ought to be
protected. And you could spin a case of, you know,
monetary loss.

But utility functions, when I talked about
those economists who trained me, Gary Becker was one
of them, and he was one of the first to put other
things in utility functions. And that is the way the
FTC thinks. David is right, that the Commission ought to stress that. I think you can read that in the unfairness statement now. But, certainly, statements to that effect would be useful.

MR. VALDECK: Yeah, and to Tim’s credit, Tim and Howard published an article that is a classic. I think a classic in the Mark Twain sense. Something that everybody talks about, but no one has ever read.

(Laughter.)

MR. VALDECK: But I did read it. And in it, Tim makes exactly that point, which is that the unfairness statement ought to be construed to cover the kinds of behavior that we would think of as invasion of privacy work. But, in fact, oftentimes, when a bureau director brings a case like that to the Commission, there is real pushback. And not every commissioner, unfortunately, is quite as enlightened as Tim is on this matter.

So I think that going forward some clarity needs to be injected into the process either through a revision of the unfairness statement or some declaration by the Commission or at large that these kinds of harms are subsumed in the unfairness statement. Because there are some cases that Tim actually raises questions about in that article, and
the result was, I think, you said was sort of hard to reconcile. The order was hard to reconcile with the complaint language. Cases like DesignerWare, Aaron’s. And that is because there was friction within the Commission.

So we need some resolution of this issue because, increasingly, the harms that are caused through data breach and other forms of revelation of privacy information are not necessarily economic in nature. And the unfairness statement should simply make that clear or the Commission should make it clear in some other way. So I do not disagree.

MR. MURIS: Well, I appreciate the fact that we had at least one reader. But I think maybe the solution is the next time the Commission brings a case like that is just to issue a public statement that interprets the unfairness doctrine.

MS. MCDAVID: Or perhaps in these hearings and the report that comes out.

MR. MURIS: Sure, sure, another good suggestion.

MR. SAYYED: Let me ask Alysa, who I think on this panel counsels clients the most directly on these issues, if she has some thoughts on this area.

MS. HUTNIK: Well, one of the things that we
hear from clients a lot are what is the law and what is the best practice. And in counseling clients, you know, it is the interpretation of the cases and really focusing on those fundamental policy statements. So where you have a statement on deception and a statement on unfairness from 1980 and ’83, which are helpful and we continually go back to that, I think to David’s point, modernizing them, even with current examples rather than adding kind of the 75th, the 77th document that you need to put in an email to the client on what they have to address, I think with current types of challenges, both in advertising and data practices and et cetera.

MR. SAYYED: Well, that leads right into a broader question. You know, the Commission takes -- I think, takes seriously its obligation to provide clear guidance, business guidance in consumer education. So I wonder if folks up here think there are other areas where, you know, new or updated policy statements or materials are needed. I think that ties in as well to the idea of a self-regulatory model, as well.

I would put that open maybe to David and Alysa initially. But, of course that is just as potentially true on the antitrust side of it.

MR. VALDECK: Yeah. Let me just make a
quick comment, which is the agency spends an enormous amount of time on guidance documents. When I was there, the endorsement guides came out, the Green Guides, 300 pages of narrative. These are really important documents. We understand why regulated parties need the kind of guidance that the agency can provide.

But doing a good guidance document is an enormous undertaking. And there are areas where I think the guidance needs to be updated. Native advertising, I think, is an issue the agency is going to have to continue to grapple with.

The Green Guides left a lot of questions unanswered simply because there was no real consensus about what certain words mean like “renewable.” So I think one core part of the agency’s mission is providing the kind of guidance that Alysa is talking about that her clients need. It is quite a formidable undertaking, but I do think it is part of the Commission’s core mission.

MS. HUTNIK: I would just say that while the reports are well read by private practitioners, it is the business guides that the clients use, the TSR business guidance, you know, the Green Guides. Every one of those, I have some of those sections memorized,
as do some of my clients.

So I think taking concepts like the 2012 privacy report and taking the unfairness statement and really bringing it up to date, that would be relevant for the clients, the innovative clients that are thinking of how to use machine learning and using AI and using facial recognition and having it consolidated in some ways where the topics overlap so that they can use that and not feel like they are targeted with "gotcha" enforcement down the line when they are trying to interpret necessarily flexible standards and to do the right thing.

MR. VALDECK: Well, and this goes back to the 6(b) question, which is in order to issue some of these guidance documents, for example, the use of biometrics in the marketplace, I think the Commission might do well to commission a study to get a sense of how widespread these practices are, where companies are going, what the immediate future looks like, because this is a topography that the Commission needs to understand, but I do not know whether it has the knowledge base today to issue a guidance document on these issues.

MR. MURIS: I completely agree about guidance. The best guidance the Commission gives is
in merger, and an area that is badly in need of
guidance on the consumer side is data security.
There are enough investigations and cases -- there is
over, I think, 50 cases and probably at least half
that many serious investigations -- to do maybe not a
merger guide, but at least a commentary on -- which
the agencies did in the, I don’t know, 2006-07 time
frame.

And something that would be important would
be to talk about as examples -- and the parties can be
disguised -- when the agency did not act. That is
really important information. Because the complaints
have tended to be vaguer and vaguer over time. Data
security guidance, I think, is badly needed.

MR. SAYYED: Okay. Well, let me ask if
there is any reaction to that. If not, I would turn
to another topic.

Well, this ties into a question we got from
the audience. I will raise it in two ways. And I
think this -- first, there is a common critique that
the U.S. has lost or is losing its leadership role in
antitrust policy globally; that what we see developing
outside the U.S. is a model predicated on the
framework of the European Union or European countries;
and that this is being adopted by some of the newer
agencies and newer countries.

I would make the same point -- well, maybe slightly differently, as a question, what can we learn from the -- and is there a divergence between the U.S. and other agencies on the consumer protection side?

So a two-part question, right? Have we lost our leadership and why and then what can we learn from other agencies, both on the competition and consumer protection site?

MR. RILL: Let me start out with the competition side because I do not think I have done much consumer protection work since we put Joe Camel out to stud.

(Laughter.)

MR. RILL: There is a challenge here in the global framework of a competition agency. I mentioned in my earlier remarks in a recent speech by Mario Monti, in effect claiming that the European methods of antitrust, the European foundations for antitrust were far superior to those in the United States. That challenge has been there a long time.

I think there is a concern that there is a divergence of enforcement principles and due process principles, procedure and substantive, around the world and one that is increasingly being affected. I
I think that the U.S. has not lost its attempt, its leadership in the sense of the work its done within the ICN. It is largely the U.S. pressure, for example, that put out the U.S. initiative, that put out the guidance documents on due process through the agency effectiveness working group, U.S. leadership of the working party on endocrine cooperation in the OECD. This has a profound effect and produced a major report on due process.

So I think we are not running up the white flag any time soon. I think it is the responsibility of the U.S. in two areas to preserve, I think, leadership not only for -- you know, it is not America first. America first sometimes can be American, you know, not there. I think it is America trying to present some of the principles that have underlied antitrust enforcement in our country and are jurisprudential-based to try and put those across.

I think two areas where this can be done is continuing the guidance through the international organizations, and I think that further attention should be given to the -- if you will, the moral suasion, the publicity effort that I think underlies initiatives such as Assistant Attorney General’s Delrahim’s multilayer framework for antitrust
procedure deserve attention. I think the increasing use of bilateral agreements on competition policy, bilateral memoranda of understanding, is a good way to go about it.

And I think also that the agencies need to be perhaps attuned more, as they have somewhat in the past, to actually engage in consultation and advocacy, if you will, in particular, instances where the foreign agency seems to be departing from a globally accepted principle, procedure, or substance and, in effect, engage in consultation as provided for in a number of instruments of cooperation. I think those are important.

I think the final point that the agencies need to be concerned about, that the United States needs to be concerned about is the problems sometimes of an agency action being misused by a foreign agency to say, well, you are doing it so we can do it. There is a lot of copycat misuse of U.S. agencies. U.S. agencies need to be conscious of the risk of that copycat. A recent article by Koren Wong-Ervin and Josh Wright, lists a number of areas where that has happened following up on actually some consents being used as an expression of law, Bosch, for example, Motorola Mobility -- Google/Motorola Mobility, by
foreign agencies as well. This is an expression of U.S. law. They misused that and have that as a copycat for the misapplication of antitrust law.

MR. MURIS: I wanted to take that and ask Jason a question. I know he is doing a lot of work on artificial intelligence and I assume big data is a part of that.

Jason, is what is going on overseas, is that important for the U.S. and what should the FTC do about those issues?

MR. FURMAN: I can tell you the answer in like six months.

(Laughter.)

MR. FURMAN: But, for now, I think a lot of the issues around big data -- I think the big empirical question that I do not know the answer to, I was just talking about before, is if you think there is diminishing returns to data then you are a lot less worried about it then if you think there is some region of increasing returns. There is some people that deal with computer science that say, with machine learning, when you get past a certain point you get to this place where you can, you know, do the AI in a certain way that you could not do before you get to that scale.
If you have that, then I think you do have to start worrying about data becoming a barrier to entry; that there will be some large economy to scale in the machine learning AI space; and that you have to try to look at issues about, you know, who owns data, for example, and something that consumers may overlook and not fully understand and have the property rights defined more properly.

On the other side of the argument, in a world where you think it is intangible capital producing things rather than tangible capital, it makes it easier to enter and anyone can come up with their little computer algorithm and enter the market.

So I think this question of, is it just a really cheap -- you know, the AlphaGo reinforcement learning, the latest iteration of it that DeepMind did is not that long or complicated a program. It does not actually use any data. It just plays itself and generates the data. Anyone in this room could have done it, although none of you did.

(Laughter.)

MR. FURMAN: So if technology is like that, then I think we do not need to be that worried. Any one in a garage can do it. If technology is this increasing returns to data, then I think we do need to
be more worried. And I do not know which, so I
apologize.

MR. MURIS: Thank you.

MR. SAYYED: I will use that as a plug. We
are doing two days on big data at American
University’s Washington College of Law in early
November and two days on AI, artificial intelligence
and algorithms, at Howard University’s School of Law
in the middle of November. So maybe you can come
back.

MR. FURMAN: That would be great.

Let me just be clear, algorithmic collusion
is a whole different issue from big data one and --

MR. SAYYED: Yes, exactly, although we are
having some difficulty separating out the people that
do one or the other.

(Laughter.)

MR. SAYYED: But, anyway, no, we are going
to devote a lot of time to it. That was a key -- one
of the things the Pitofsky report did was just sort of
think about things that were going to come up over the
next 5, 10, 15, 20 years, and that is part of what we
are doing in that space.

Jason, because you have to leave, I hope
this does not put you on the spot, but I wanted to
raise it since you are doing some platform-related work, since you mentioned you are doing some platform-related work.

To go back to merger law -- and you may have less familiarity with the doctrine, but to get your thoughts on this -- how should we think about acquisitions of new technologies by established players? Sometimes we use the term nascent competition or nascent competitors. But it is something that we are going to spend an afternoon on. And maybe while you are here you have thoughts, you have some thoughts.

MR. FURMAN: Yeah, no, absolutely. You are creating a real incentive to leave panels early.

(Laughter.)

MR. FURMAN: I think I am going to do it from now. It is working out really well for me.

I think that is a really important issue. I think there is a longstanding view that everything in technology is evolving so quickly that there is no point enforcing anything because by the time you do, it has changed and there is some new competitor and MySpace has disappeared or Internet Explorer has been dethroned or whatever else.

I think there is something to that. I think
there is a lot of irreversibility, too, though. It is easier to stop an acquisition now and change your mind five years from now and allow it than it is to take a company that is already acquired and split it up. The second is basically impossible. The first, the cost of making an error and not allowing the acquisition may not be that high if you can change it later. So there is a little bit under uncertainty in literature and economics, there is an option value of waiting when you are making irreversible decisions, and allowing a merger is one.

I think you have to figure out how to think not just about market share, but about the ecosystem as a whole. If you are buying up something that could be a competitor later, then I think you are affecting the ecosystem and something that prices, especially if there are no headline prices, is not a useful guide to market share, is not a useful guide to -- but it is competition for creating a type of market in an ecosystem. So I think that does require new thinking, and probably under that option value of waiting, the uncertainty is an argument for more, not for less in those cases.

MR. SAYYED: Okay. Let me ask you if anyone has a reaction to that. We are going to have a whole
afternoon of reaction to that.

Okay. Well, not to kick Jason off, but I want to thank Jason for coming. He made a special effort to get here.

(Applause.)

MR. SAYYED: Unless members on the panel want to ask each other some questions, we have a number of questions from the audience. I do not want to be too selective because we did ask for questions and I would like to get to them. So if people are ready, we will do it.

And Jason did leave at just the right time, but maybe others can think about this, either narrowly or more broadly. Here’s the question: How do we analyze the harm to small businesses who rely on large platforms to reach new customers in ways that they never could before? That may touch on too specific a topic.

MR. MURIS: Yeah, that sounds like a benefit, not a harm, if they are using these platforms to reach people that they never did before.

Look, obviously there is a whole set of rules, disclosures, consumer protection rules. It is important that the -- just from a simple contract law standpoint, that the contracts not be devised
unilaterally as they sometimes can be, which is an obvious problem under contract law.

One of the things I am surprised with is the number of times people bring me antitrust issues that are really contract law issues. I used to teach contract law.

I do not think in the big picture sense that the so-called platform issues need to be analyzed any differently. The tool kit we have is perfectly adequate and, you know, it goes back decades when the new industries were evolving. We are talking about going back to the 1990s.

MR. SAYYED: I took a little bit of this question. We focused on the use of antitrust to protect small businesses. I wonder if other folks have some additional comment on that question. Is that a proper role for antitrust or is it just too hard for us to measure that particular factor in our analysis?

MS. MCDAVID: I share Tim’s criticisms of the Robinson-Patman Act. I try to give those questions when they come up to someone else in the office. Or I tell my clients that whatever the right answer is, the Robinson-Patman answer is the other side of it.
MR. VALDECK: Well, let me just add one thing. You know, dealing with platforms is an issue that rises on both sides of the building. For example, I mean, one of the ironies in the Google investigation were the companies that were complaining about anticompetitive conduct were the very companies that would not have existed but for Google. You know, that interaction becomes very challenging.

Also, you know, some of the platforms raise serious consumer protection issues, because they are essentially bazaars selling multiple products on the same page. So questions about deception, who is responsible for the deception, arise with some frequency. So I think one sort of unmet challenge on both sides of the building is what do we do about platforms. You know, we do have -- there are certain immunities for based on content, but that does not really resolve some of the consumer protection problems and some of the antitrust issues that arose, for example, in the Google investigation.

MS. HUTNIK: I would just add on the consumer protection side, when we are talking about platforms and responsibilities -- and, David, I heard you earlier in terms of talking about the limited resources for enforcement -- some of the things that
we have seen is deputizing platforms to be responsible for those that they let into the bazaar. And that may be all well and good, but there is a lot of interpretation and a lack of guidance on what is reasonable oversight and monitoring, what is scaleable, and not doing a gotcha on that.

MR. VALDECK: All fair questions.

MS. HUTNIK: So if we go towards that point, what I would strongly encourage thoughtfulness over is what are the standards to avoid third-party monitoring, whether it is safe harbor, whether it is other types of incentivizing, but clarity on those points.

MR. SAYYED: Okay. Any other comments on that?

Let me turn to a question that is -- I think I will direct it to everybody. It is a similar question. So the question says that former Chairman Muris mentioned imperfect information in contrast to behavioral economics. But in standard economic models, imperfect information causes transactions not to happen. It does not cause buyers to be fooled.

So I think here is the question: Aren’t buyers sometimes simply fooled and should they be protected from being fooled? I think that is both a
consumer protection and in some ways a competition
question. But I will turn it over to David first.

MR. VALDECK: I think the answer is yes. The Commission has struggled with what is a reasonable
consumer and what percentage of consumers must be
deceived by a message. But the mission of the
Commission is to prevent deception in the marketplace.
Tim and I may disagree at the margins about this, but
I agree with Tim’s fundamental point that the core
mission of the agency is to protect against fraud.

The statute does not really use the word
“fraud;” it uses “deception.” In my view, that has
always been the core mission of the agency. The first
cases the agency brought were consumer deception
cases. They were the sale of silk, which was really
cotton and it was sold C-I-L-K. Those were literally
the first enforcement cases the Commission brought.
So, historically, that has been at the center of the
agency’s mission.

MS. HUTNIK: I would also just add to that
we have to reconcile what is a reasonable consumer and
the gullible consumer standards. And one of the other
parts of the FTC’s mission is consumer education.
And, particularly, as we go through the emerging
marketplaces and people are learning even about those
marketplaces, consumer education plays a key role in that, so that we do not dilute the reasonable person standard.

MR. MURIS: I agree with both of those points. Let me take the economic modeling part of that. It is almost 60 years since Ronald Coase’s famous article, and the applications of that are all about transaction costs. Shortly thereafter, George Stigler won his Nobel Prize in significant part for discussing that advertising was an extremely powerful tool for the elimination of ignorance. Well, obviously, if there is ignorance, we are talking about a world with transaction costs and that is the world in which you need an FTC enforcement, as I was talking about.

And so the whole -- this straw man that you hear -- in the popular press that, you know, economists talk about these, you know, automatons who only react -- consumers with perfect knowledge who only react to price, that just has not been true in any sensible economic application to what the FTC does for decades.

MR. SAYYED: Okay, well, thank you. Let me follow up on a point David made as well about a Bureau of Technology in the FTC. I am going to depart a
little bit from the question, but ask, you know,
first, what do the other panelists think about that?
Is it something that is relevant on both the antitrust
side of the house as well as the consumer protection
side of the house? And what might it look like?

I raise that -- maybe it is a little unfair
because I did not raise it earlier. But David was a
bureau director; Tim, as well as being Chairman, was a
bureau director. How do you set up these things for
success really? That is maybe my question.

MR. VALDECK: I defer to someone who was a
Chairman. I think that would be the Chairman’s
mission not -- I mean, I think it would be important
to retain some of the technology infrastructure in the
bureaus. I mean, much of what the Bureau of Consumer
Protection uses technologists for are forensics for
investigations. But there is a lot of value to having
access to skilled technicians for the policy issues
that the agency is going to have to confront moving
forward. Biometric identification, things like that,
these are difficult technical questions.

MR. MURIS: Look, the bureaus are
complementary. They are not substitutes. As the only
person ever to head both of them, they are
significantly different, they are different in their
personalities, they are different in their career paths. They are, in many ways, autonomous.

It is important -- let me give you an anecdote. I wanted the Bureau of Consumer Protection to do more in working with criminal authorities. And I, unfortunately, insulted them and told them that they were too self-satisfied. Those were not the words I used. And I regrouped and after about a year, they decided it was their idea. And they now have a very successful criminal liaison unit, which, of course, they take complete 100 percent credit for, which is fine with me. And it was a mistake on my part to criticize them in the first place.

But it is a wonderful organization. It reminds me of working in OMB in the old days where you have people who it is their career. It is not as transitory as the Bureau of Competition. But embedding in the bureau, like David says, would be a very sensible way to go.

MR. SAYYED: Anybody else?

Okay. I will answer one of the questions. There is a reference in that question to the Office of Technology Research and Investigation, what we call OTech, which does sit in BCP. The question is, why is this unit insufficient to get the job done now?
Without commenting too much on whether it is insufficient or what job they are focused on, it is a very small group and more resources would probably be appreciated by the Chair and by the Commissioners and even by the Bureau Directors.

So maybe I will end with a question that maybe I have. It is a real question given the difficulty of managing agencies. Do you think the FTC should have more resources to do its mission and maybe if you were to allocate the resources, how would you allocate them? So I have no particular -- I would like the private perspective as well as the -- the folks who have not been at the agency as well as folks who have been at the agency to maybe give some thoughts on that.

MR. RILL: I think a question like that to be addressed by me is like asking a Protestant minister of what he thought about the latest Papal encyclical.

(Laughter.)

MR. RILL: But when I was at the division, one of our major, major efforts was to enhance the workforce at the division, both from the standpoint of law and economics. And it was short-handed when I got there and we were able to build it up and I think
increase the efficacy of the agency with more resources.

It is difficult to get those kinds of resources with all the other budgetary demands. We ran into a number of problems, partly solved by the filing fee issue. But I think the agencies do need — certainly, the division needed more resources at the time, sensibly used and sensibly coordinated. For the Commission, I leave it to the people who worked there.

MR. VALDECK: Tim?

MR. MURIS: Well, I have a long-running view about this. In '81, when we came in, we were asked to reduce resources. The way to think about it as FTE, we put the agency on a path from 1800 to 1200. That is where it was in the mid '80s.

When I came back in 2001, I asked for a comparison with the mid '80s, and Bob had had about 1,000. It turned out in professionals, 1,000 and 1,200 were about the same, a very small difference. What had happened, there was a lot of outsourcing and a lot of productivity improvements. Technology had had a significant effect.

I think the agency is up to 1,150, something like that.

MR. SAYYED: That is right, that is right.
MR. MURIS: And I do not know how that compares with 2001. I suspect there have been more productivity improvements, probably not as dramatic as in the '90s. But, you know, Bob did a hell of a job with 1,000.

I think we are headed for another retrenchment era. So I think it is probably wishful thinking to ask for significantly more resources and -- besides the people, there is -- BCP, for example, has a significant infrastructure burden that we managed to satisfy with the money from Do Not Call, which we used for building up the infrastructure for Do Not Call, which was very helpful for the rest of the agency.

But I think the present rate strikes me as significantly more. We ended up about 1060, and I thought we did a lot. I thought Bob did a lot. So I do not think more resources are in the cards. I think they are doing a lot with what they have.

MS. HUTNIK: This is not from an internal perspective, but I think it is all about the priorities. Where do you want to focus the resources that you have? Some of the themes from today were, we have Division of Enforcement and we need more manpower in terms of business guidance. And I think to not get
distracted by calls for regulation, which would take a
whole bunch of people off of doing some of those
things now, that may not be as productive.

MS. MCDAVID: Speaking only on the
competition side, the lawyers and economists with whom
I work regularly at the Commission are incredibly
dedicated and hard-working. The general populous has
a view of government employees that is deprecating and
it is not fair. They do yeoman’s work. They work
weekends; they work nights.

A lot of the competition mission is consumed
with things they cannot predict. What is the merger
wait going to be, all of which are time-sensitive. So
they have to at least retain the kinds of resources
they have because you will burn them out.

MR. VALDECK: Yeah, I would argue for more
resources. I understand Tim’s argument, and I realize
this is probably swimming against the tide. But since
2001 or 1981, Congress has added considerable workload
to the agency. Changes in the marketplace have
required the agency to do more work.

The Bureau of Consumer Protection, at its
height when I was there -- and I do not think we have
added any resources to it -- had fewer than 450
people, including most of the people in the regions.
People work extremely hard. They are incredibly dedicated. But there are lots of people with their fingers in the dykes and the water is just coming over the transom. So I would urge the Commission to think about asking for an increase in resources. Of course, most of it should go to BCP.

(Laughter.)

MR. VALDECK: But I think the agency could well use a couple hundred more FTEs.

MR. SAYYED: Okay. Well, I think we will conclude right there. We were on target for 11:45 and I think that is where we are.

Before we conclude, I would like to thank a bunch of people. First, I would like to thank the panelists, including Jason who had to leave, very much for devoting some time and effort to this.

I would like to thank my colleagues in the Office of Policy Planning, who have been working very hard on what will probably be about 20 days of sessions. This is only 5 percent of the way through once we are done today. Just a wonderful crew to work with. I am very proud to work with them. And I think I have the best job at the Commission.

(Laughter.)

MR. SAYYED: And, finally, thank also the
staff of the executive director for helping put this
thing together. You will see more of it this
afternoon. I will not be on stage and I wanted to put
that out there.

Thank everybody for showing up and paying
attention. We will be back here at 1:30. So if you
can come here slightly before, that would be great.

There is a cafeteria across the courtyard if
people want to eat law school food. But, but, but,
but, but, but it is good. It is better than I
remember. So hope to see you back here slightly
before 1:30.

(Applause.)

(Panel 1 concluded.)

MR. SAYYED: Okay. I am just going to say welcome back and remind people in the audience or new people that that two of my colleagues, maybe more, are collecting questions that you make right on the question card, and they will be brought to the panel near the end of the panel for some audience Q&A.

So with that, I am going to turn this over to Greg Werden from the Antitrust Division. He is going to discuss with the panel whether the U.S. economy has become more concentrated and less competitive.

MR. WERDEN: Thank you. I am not a fan of introductions, so I will not introduce the speakers. They can introduce themselves if they want to spend their time that way. They have total control over their time.

The way we are going to organize this is Jon is going to give a long side presentation, and then each of our panelists will give much shorter presentations, and they will go to a series of questions that I pose and then, finally, questions from the audience.

So, Jon?
DR. BAKER: Thank you. Thank you for having me. It is nice to see all of my co-panelists. Thank you, Bilal, and the FTC for inviting me. I was involved in the hearings in 1995, and I am delighted to be back for these today.

So the FTC hearings two decades ago, that I just referred to, were spurred by two challenges for antitrust policy. Markets were becoming increasingly global and innovation competition was becoming increasingly important. And, today, we have an additional challenge for antitrust policy. Economic evidence has been accumulating since the 1995 hearings, and much of it from the past five years or so, that shows that market power has been growing for decades. I think of what we are seeing as today’s antitrust paradox, conjunction of substantial and widening market power with well established and extensive antitrust institutions.

In my presentation, I will sketch the evidence that market power has been growing over the past quarter century and has become substantial in the United States. I am going to go through nine reasons. None of them is individually decisive. There are ways to question or push back on each, but their weaknesses are different. So when you take them collectively,
they paint a compelling picture of growing market power.

I am also going to explain why the recent economic trends I point to reflect growing market power, not solely increased scale economies and temporary rents to early adopters of new technologies in competitive markets.

To fit my presentation into the allotted time, I will say less about most of the reasons that will appear on the slides. And the very last slide will reference my forthcoming book, the first chapter of which goes into more detail on this topic, including full cites for the research that is referenced on the slides. It will also mention criticisms of the research that I do not have time to bring up in the presentation, although I would be happy to talk about them during our discussion later.

Before I get into the nine reasons, I want to make clear what I mean when I use the term “market power.” Firms exercise market power in their output markets as sellers by raising prices or by altering other terms of trade adversely to buyers, relative to what would prevail in a competitive market.

Market power is not just about prices. It can be exercised on other competitive dimensions, too.
Market power can be exercised in input markets, exercised by buyers, and that is defined analogously. The first of the nine reasons to think that market power has been growing is that we insufficiently deter anticompetitive coordinated conduct. The Justice Department keeps uncovering cartels year after year. They seem to form at the same rate that we catch them, and that suggests under-deterrence because the penalties are probably too low to deter collusion and there is no reason to think that the threat of penalties chills procompetitive conduct or leads to excessive compliance expenditures. Under-deterred express cartels are probably the tip of an iceberg because tacit collusion is probably even harder to deter.

We also insufficiently deter anticompetitive mergers, and there are several empirical studies that support this conclusion.

The third reason is insufficient deterrence of anticompetitive exclusion. Since the late 1970s, the courts have targeted rules governing exclusionary conduct for extensive relaxation. And in some cases, the new rules conferred de facto legality on such conduct.

The empirical evidence that exclusion is
under-deterred is about the competitive effects of vertical practices. Now, vertical conduct and exclusionary conduct are not the same thing, but they are correlated and the evidence shows that vertical restraints often support collusion. There are a number of examples of competitive harm from vertical restraints and vertical integration.

Now, that interpretation of the literature on vertical conduct may surprise some of you. So I want to make an important methodological point. Most empirical studies about the effects of vertical restraints are looking in the wrong place to learn about whether stronger antitrust enforcement would be beneficial. If you want to know whether oligopolists can use vertical restraints to harm competition, you will not learn much by looking at markets with competitive structures or in markets where the firms could be deterred from anticompetitive conduct with a threat of antitrust enforcement.

Looking in those kind of markets lets you learn about potential procompetitive consequences and about ways that firms can craft their vertical arrangements to limit the inefficiencies and costs that they may impose.

Now, you might see some instances in which
vertical restraints harm competition, but the markets are not randomly selected. You would expect, in general, the studies would not often find harm to competition, even if the conduct could be harmful in other settings that are not being studied where one might want to think about antitrust enforcement.

And you are not going to learn much about whether relaxing antitrust constraints has or would lead to greater competitive harm. If you want to identify the effects of antitrust enforcement in the econometric sense, you have to compare outcomes with and without antitrust complaints.

And there is a MacKay & Smith study that is in the small print on the slide about resale price maintenance. That is a rare example of a study of vertical restraints that addresses this identification problem. It finds that on the whole, competition was harmed when the antitrust constraints on resale price maintenance were relaxed.

Fourth, market power is durable. Markets are not invariably self-correcting. Cartels and monopolies often last a long time. The eight-year lower bound on the length of the average cartel compares favorably with the time it takes to correct erroneous judicial precedents, even Supreme Court
decisions, you know, through later court decisions
governmental restraints on
competition. Over the past few decades, the U.S. has
broadened patent scopes substantially and granted too
many patents after inadequate review. This trend may
have halted, but it has not really been reversed. And

Fifth, the increased equity ownership of
rival firms by diversified financial investors is
another reason to worry about growing market power.
Rival airlines or banks or pharmacy chains or other
competing firms increasingly have overlapping
ownership by financial firms, like Blackrock, State
Street, Fidelity and Vanguard. The initial studies
have found that common ownership leads to higher
prices. This is an active research area where we are
likely to learn more soon.

Sixth, increased governmental restraints on

The seventh is the rise of dominant
information technology platforms. Now, the empirical
evidence suggests that price-cost margins have been
growing economy-wide since 1990, in the United States.
The trend seems clear, although the magnitude of the
margin increases has not been measured. Growing
price-cost margins are probably tied to investments in
information technology. Dominant information
technology and internet platforms are not the only
firms making those investments or likely exercising
some market power as a result. But the platforms are
an important part of the story because they are likely
insulated from competition in some of their major
markets.

So eighth, oligopolies are common and
concentration is increasing in many industries. The
best evidence that increasing concentration allows
firms to exercise more market power comes from studies
of particular industries, like airlines, brewing, and
hospitals. The economy-wide evidence on concentration
suggests only modest increases in concentration and
many industries with rising concentration remain
unconcentrated.

But the economy-wide evidence is less
reliable than industry-specific studies. That is
because the economy-wide studies often use broad
product markets when it would be better to look for
competitive products in more narrow markets, and they
often use national markets when it would be better to
look at regional or local markets.

Now, some of the evidence involving broad
national aggregates is consistent with rising overall
concentration but could instead reflect increased
multi-market contact. But that could equally raise
competitive concerns about coordination. And there
are recent studies that also find concentration is
high and possibly growing in many labor markets,
potentially making it more possible for businesses to
express monopsony power to depress wages.

The final reason to think that market power
has been increasing is a decline is economic dynamism.
And Jason Furman highlighted this reason this morning.
Growing market power is a leading explanation or a
plausible contributing explanation for a range of
economic trends: a secular slowdown in business
investment; rising profits of a share of U.S. GDP; a
slowed rate at which firms expand when they become
more productive; a declining rate of startups; a shift
in growth and productivity gains from entrants to
incumbents; and a growing gap in accounting
profitability between the most and the least
profitable firms.
So I have interpreted the evidence in these nine categories that I highlighted as indicating growing market power. I want to explain now why I think that is a better interpretation than the most plausible alternative, namely increased scale economies and temporary returns to the first firms to adopt new information technologies in competitive markets.

Now, the benign alternative has an initial plausibility because the efficient size of firms has likely grown overtime in many industries as a result of the high fixed costs of investments in information technology, network effects, and an increased scope of geographic markets. That means firms could grow larger and concentration could rise and price-cost margins could increase even if markets are competitive. In addition, the first firms to invest in new information technologies might earn substantial rents, which should be temporary if those investments do not confer market powers and their rivals follow suit with investments of their own.

The first six reasons I gave for thinking market power is substantial and widening in the U.S. cannot be reconciled with the benign alternative. Anticompetitive coordination, mergers and exclusion
are under-detected, market power is durable, and
increased equity ownership of rivals by financial
investors can soften competition, and governmental
restraints on competition have grown.

Also, market power is a better
interpretation than the benign alternative for the
other three reasons. The growth of dominant platforms
probably does owe a lot to scale economies and first
mover advantages, but those platforms may still have
the ability to exercise market power by excluding
rivals. Scale economy and rents to early adopters of
new technologies probably did contribute to rising
concentration in various industries. But there is
often independent evidence that the firms in those
concentrated markets exercise market power, which is
not surprising because the same fixed expenditures
that make scale economies and rents to first movers
possible can deter entry and soften competition.

Now, some of the evidence for the loss of
economic dynamism could be consistent with the benign
alternative of growing scale economies and returns to
early adoption of new technologies in competitive
markets, as well as consistent with increasing market
power. And that might include the rising profit share
of GDP and the growing gap in accounting profitability
between the most and the least profitable firms. But other aspects of declining dynamism cannot be reconciled with the benign alternative. The benign interpretation assumes that profits rise because markets are increasingly dynamic with higher rates of entry, investment, and business failure. In competitive markets, growing scale economies yield higher profits because entrants have a greater risk of failure when fewer firms can succeed. Earlier adopters of new technologies would earn profits, but they would be temporary, competed away by new or expanding rivals making their own investments. But the benign interpretation is inconsistent with the evidence showing the reverse, a slowing rate of new entry, a declining rate of expansion when firms and plants grow more productive, and a secular slowdown in business investment. And in addition, the financial markets appear to view corporate profit streams as less risky than in the past and, yet, if markets are increasingly dynamic, as the benign alternative supposes, those streams would be viewed as riskier. The bottom line is that growing market power is a better explanation for declining dynamism and for all nine reasons taken as a whole than the alternative
of increasing scale economics and early adopter rents in competitive markets. The benign alternative may well be a partial explanation, but increasing market power is likely an important part of the story, too.

Now, I do not need to spend much time with this audience explaining what is wrong with market power. The harms within markets are described on the slide from a partial equilibrium perspective, you know, within an industry, within a market. The harms, they can arise regardless of whether market power is exercised by sellers or buyers. Market power can also harm the economy as a whole by slowing economic growth and increasing in equality. And the adverse economic consequences of the exercise of market power could be reinforced if firms and industries can use their market power to secure political power and use their political power to protect or extend their economic advantages.

So just to summarize, the evidence I presented shows that market power has been growing in the U.S. economy for decades. From an error cost point of view, we have learned that we are deterring anticompetitive conduct less than we thought we were in 1995 when the FTC last held hearings. That means we should take steps now to strengthen our antitrust
rules, institutions, and enforcement.

And, Greg, I think I will reserve the remainder of my time for rebuttal.

MR. WERDEN: Sorry, you have to check in with the clerk before you start talking.

DR. BAKER: It’s a tough court here.

MR. WERDEN: If you have ever argued at the Court of Appeals, that is the rule.

(Laughter.)

MR. WERDEN: Okay, go ahead, Steve.

MR. BERRY: Okay. I want to give a talk, only about six minutes, that I think is complementary to what Jonathan is talking about, and I want to talk about what kind of evidence we should weigh more or less as we are looking at this debate. And in particular, I think that Jonathan’s mix of evidence was quite different than the evidence you often see in presentations in the press by macroeconomists and by other nonspecialists. I wanted to indicate what some of those distinctions are so that we can think about what evidence is the most convincing and also what kind of things we would like to look forward to in the future.

So I am going to divide things a little bit starkly into good and bad. And to talk about the
relative bad, I want to go all the way back to the year 1989. In the year 1989, there were two, I think, magisterial chapters that were published in the handbook of IO, one by Dick Schmalensee and one by Tim Bresnahan. And Dick Schmalensee was a participant in and a sympathetic observer of decades’ worth of work that did something like what people are doing today, which is try to look at the correlation of various outcomes, like prices and markups, with measures of concentration, like the Herfindahl Index.

And his chapter laid out a whole host of problems with that, but I want to emphasize particularly one. The Herfindahl Index in particular is probably better thought of as the cause of market competition, an interesting summary statistic of what is going on rather than as an effect that causes outcomes. The Herfindahl Index, itself, is a function of market shares, which are a function of outputs, which are co-determined simultaneously with price.

The most famous example that people used in those days is that differences in firm heterogeneity, cost heterogeneity where you had some firms with very low prices; those low marginal costs would feed into their market shares; their market shares feed into the Herfindahl Index. But their low marginal costs also
flow into markups and you would see a positive
correlation between markups and concentration that has
to do with efficiency rather than with competition.
That is the problem of simultaneity, the
problem that, in this case, correlation is not
causation, and we should be very skeptical, I think,
of these studies that in some ways naively regress an
outcome on a Herfindahl Index.
Now, some people in this literature, I
think, are actually quite aware of this and they think
of this as a problem with the Herfindahl Index itself,
is correlated with other things, is endogenous. They
look for purely statistical ways of dealing with that
endogeneity. They look for what’s called an
instrumental variable or just a more plausible
exogenous variation of market structure.
And that brings me to the second of those
great handbook chapters written by Tim Bresnahan. And
what he pointed out is that even if we grant that you
have discovered the true causal effect, say, of the
number of firms on price, you have not established
anything about the role of markups either on the
output side or on the input side.
Let me just give you one example of that.
I teach freshmen micro, and on the third day, we teach
them that supply slopes up and there are a bunch of
shifters. Among them are the number of firms that
shift supply back and forth. That is because of the
upward sloping marginal cost curves of the individual
firms. Demand slopes down. As you move the number of
firms, the supply curve moves against that demand
curve and it shows that as the number of firms goes
up, supply shifts out, prices fall.

In the perfectly competitive output market,
decrease in concentration drops prices. But there are
no markups. You have not found evidence of markups.
You may have found evidence of increasing marginal
costs.

The same thing happens on the input side.
It is an implication of the perfectly competitive
model of wage determination that an increase in the
number of firms will drive wages up. That is not
evidence of monopsony power. What Bresnahan said is
that we actually have to separately consider demand
and cost and competition and we cannot do that in one
equation or one correlation.

I think that kind of evidence with -- by the
way, did not feature greatly in Jonathan’s discussion
-- should be downweighted a lot, right? We thought it
died with the publication of these two chapters 25
years ago. Some of us woke up and were a little startled to see it suddenly outside of our window looking in, and that is trouble.

I want to talk for just two minutes about possible alternatives. One is just to look directly at the effects of policy that have changed and what effect did they have. We can learn about policy that way.

Let me skip a couple of slides, though. Another thing, though, is to back away for one minute, to back away for one minute from causation and just think about measurement. What has happened to markups? We heard about these papers just a minute ago. I think they do show that regardless of cause, our best evidence is that markups are going up. It is sensitive to measurement, like whether you include certain intangibles and fixed costs in that or not. But that kind of simple, descriptive, cross-industry measurement is very valuable for telling us what has happened, but not why. Not why.

So I think, ultimately, we are going to have to do what Jonathan suggested. We are going to have to do studies of individual important industries and ask what is going on. So here is an example a graduate student of mine did as part of his thesis.
He looked at the wholesale sector. That is pretty important. That is a pretty important sector, right? And what does he find? Concentration is up. Ah-ha, concentration is up. On the other hand, output is up. That does not sound like monopolization, does it? Output is up. The product itself has changed. Multi-warehouse wholesalers are locating closer to their customers. They are investing in IT for logistics. They are dual-sourcing goods. You can shop between China and the United States with one stop at a wholesaler. The nature of the good is changing. And when you put this through a Bresnahan-like series of models, you see that markups are going up in the industry, just like in the cross-industry analysis, but for a mix of all of the reasons that Jonathan mentioned, not for one or the other, but for all of them. Product quality is going up. That is pushing price up. That pushes margin up. The marginal cost is going down as firms get better logistics and locate closer to their customers. Marginal cost is falling. That is efficiency. But markups go up. Competition is really going down and that also contributes to the markup effect. Why don’t we see the entry that Jonathan talked about? Implicitly, there must be fixed costs
or some costs that are preventing new entrants from somehow competing away these profits. It is costly to build all of those plants near your rivals and that is a sunk cost and it is very hard for that to be competed away. This is a complicated story.

And what I want to finish with is a substantive hypothesis. What if this is true in broader sections of the economy? What if it is happening in broader sections, not just wholesale, maybe IT, maybe other parts of retail, maybe broad sectors of the economy, that firms for endogenous reasons are changing their production methods and the quality of products so that marginal cost is falling and fixed cost is rising? Markups are going up. Concentration is going up.

If that is happening in a broad-scale way, it does not seem just that big is bad, but we are way also -- we are way far from the theory of perfect competition as well. We are in this very complex setting where there are some good and bad things happening. Like Jonathan, it is not just economies of scale. There are other things, too. There are competitive effects, as well. We cannot just wave our hands and say it is all fine.

I also do not think we can just simply say
big is bad. I think it is these better kinds of
evidence, these descriptive studies at the broad level
and causal studies that are within industry level that
we ought to emphasize. And I think they are the ones
that are going to eventually tell us what the correct
policy path forward is. And these guys are better
policy experts than I am, so I am mostly going to
listen for the rest of the time.

MR.WERDEN: Thanks very much, Steve.

(Applause.)

MR. WERDEN: I am not sure who is going
next, but why don’t you do it.

MR. WRIGHT: Okay. There are a few of my
students in the audience who are laughing at the idea
that I am going to do anything in six minutes. But
let’s give it a shot nonetheless.

I think sort of extending the discussion
from Jon and Steve to move on, I would probably start
in the same place as Steve, which is I went to grad
school in economics and studied IO in the early 2000s,
and those handbook chapters were sort of taken as the
starting point for learning empirical IOs. We did not
read studies that attempted to infer causation from
changes to HHI on -- the effect on the price, we read
Steve’s stuff.
I think the fundamental challenge in this area -- and then I will dive into the data -- is that while it is probably true that zombie IO economics has died in economics departments a long time ago, I think the fundamental challenge in part is making sure we do not get antitrust policy that adopts zombie IO. I think that is a challenge for the agencies; I think it is a challenge for IO economists because the punch line for some of this is going to be on the real questions that matter for designing policy.

My interpretation of the evidence is that we know a lot less and probably need to know a lot more before we start playing much with policy. So I will spend the rest of my time talking about that.

For starters, I think it is important to separate -- we are going to talk about testable hypotheses and testing with empirical data. I think it is really important for these discussions, especially if we are going to attach any policy relevance to them, to separate claims.

One of the claims around is that we have got a rise in concentration at the aggregate, sort of nonmarket level, sort of really aggregated industry sector, stuff made with metal not necessarily just capturing firms that are competing against each
There is a second set of claims that try to do the relationship between what is happening in markets, changes in concentration in markets, and relate those to price or output or markets. Are we getting more or less competition?

And I think there is a third set of claims that is, is any of this caused by lax antitrust enforcement? I will spend most of my time talking about why it is so important for a discussion of antitrust policy that we focus on markets and not sort of broad aggregated sectors. That does not mean that the sector-based research is not incredibly useful. It is. We learn things like, at a rough level, what is happening to markups over time? That is interesting as a descriptive matter.

We do not -- and, often, these studies are used to sort of glom on causation and make claims about whether antitrust is doing too much or too little. The reason that we care fundamentally about markets and not sectors in antitrust is because the fundamental lesson of those IO handbook chapters, and I think most of modern IO in this area is that competition and concentration are different things.

Concentration can be caused by more
competition, it can be caused by less competition. I think Steve had this as the Chicago critique on his slides. I am a UCLA guy. I am going to call it the Demsetz critique or else I will lose my Bruin lunch card.

So but the fundamental idea that we grapple with and what makes antitrust hard is that changes in concentration can be the outcome of more or less competition. That makes identification difficult. It makes broad claims about whether we have too much or too little or sort of Goldilocks just right levels of concentration really difficult to do and probably outside the scope of the ability of modern IO. That really was the lesson of sort of the big empirical revolution of OI in the ‘70s and ‘80s.

So the punch line for me is I think a lot of the evidence that we see are attempts to do sort of this broad industry sector stuff where we do exactly what we learned not to do in the ‘70s. We regressed markups or price or profit on really broad aggregated industry data. And then the policy world sort of jumps on and makes causal claims and sort of we are off and running. I think that is a dangerous place to be in.

There are attempts to do better work. There
are attempts to do sort of more sophisticated merger retrospectives and trade off sort of broad general insights for learning about one case and maybe, I think, in discussion, we will talk a little bit more about that.

But my read of the evidence is at the aggregated -- sort of relationship between aggregated concentration and competition outputs, we do not know much that is relevant to formation of antitrust policy. I think there are interesting questions. I think it is important for modern sort of IO economists and for the agencies, for the FTC and the DOJ, who have great collections of IO economists inside those buildings, to engage in answering those questions.

I would say it is great that we all get up here and engage in those questions. But I am hopeful that the economists inside the agency, who are experts and have access to data, things like agency predictions and individual cases that they can test against data, that they are also an active participant in that discussion.

So I think the real challenge moving forward is if you have data that is not what you need to have the type of discussion that you want to have about whether it is desirable to move policy one way or
another, whether it is mergers or something else, the challenge I think both for the academy and for the agencies is to invest in producing those data, producing tools, producing studies to move the ball forward in that literature, because I certainly agree there are interesting questions here that require investment and are sort of worth the time. I will stop there.

MR. WERDEN: Thank you.

Fiona?

MS. SCOTT-MORTON: Great. Hello, everybody, and thanks to the FTC very much for being invited to contribute to this panel.

I agree with both Jon and Steve on the IO research here. It seems very easy to run the wrong regression. To someone without a PhD, it looks tempting. We need to resist that temptation because it is, in fact, just wrong.

But we need to find another way to answer the question. That is not an excuse for not answering the question. And as Josh said, concentration and competition are not the same thing. It is not actually, I think, very informative to learn about aggregate concentration in the United States. I would like to know about competition in the United States.
And I think, as Steve said, the markups are a good way to get there.

I think the real reason that there is consensus among a large fraction of the people who do this work for a living and people who read the newspaper, that we have a competition problem in the United States, comes not from papers published in academic journals, but from two main sources. One is from people who work in this area, the actual experience of litigating. So it took 23 years from the time the FTC first found a pay-for-delay agreement in the record to getting the Supreme Court to say, yes, under certain conditions, those could be anticompetitive. Twenty-three years. And a pay-for-delay is when a branded monopolist pays the generic to stay out of its market. That is pretty straightforward. It is exclusionary conduct. It harms consumers. It keeps prices very high. Why did we have to wait a quarter of a century to get that practice banned, or never mind banned, actually, to get that practice scrutinized properly?

The American Express opinion by the Supreme Court completely misses the locus of competition between American Express and Discover. It is all about American Express' consumers versus the retailers
and so on, and gives a complete miss to the issue of
competition, which is what the antitrust laws are
supposed to protect.

So when you look at litigation and you look
at what the agencies are trying to prove in the
courts, it is a really heavy lift. And as Bill Baer
said when he was at the DOJ, why are some of the
mergers we are reviewing even getting out of the
boardroom. They are just obviously anticompetitive
and, yet, we have to litigate them anyway. So I think
that is one big area that we look to for evidence as
to why there are anticompetitive effects.

A second one is our experience as consumers.
Look around at hospitals, airlines, beer, media, big
tech. I think people in the economy walk around
buying things and the experience they have is of less
competition. And I think also consumers can get
ey easily confused between what is regulated and what is
not. So, for instance, pharmaceutical prices and
cable prices are not fundamentally something that
antitrust can do a lot about and, yet, those things
are exhibiting less competition. Also, for the reason
that Jonathan covered in his talk about lobbying to
get government protection.

So what is my response to this merging
consensus? We need to revisit the economics. And I will say this slowly because it is worth saying 25 times and I do not have that long. So I will say it once slowly. Economic analysis is not the same thing as less enforcement. Chairman Simons said it exactly right this morning. Economics is a tool. If you feed a set of facts into the economic analysis box, you can come out this merger is competitive or this merger is anticompetitive. It works beautifully.

But what happened in 1975 is we applied economics to antitrust and we got the pendulum swinging down. But arguably we had too much disorganized enforcement. The pendulum swung down and now we have these things as sacred texts and the answer is always if you believe in the sacred texts of Chicago to enforce less. Obviously, if you enforce less for 30 or 40 years in a row, you are eventually going to pass the optimum. And that is what we have done, I think.

And we need to recognize -- I luckily was too young to be part of that project and so it is perhaps easier for me to see that we well overshot the optimum and that we need to go back and look at the economics fresh and try to get the right answer. Let me remind you all there is a big drumbeat of dollars
in favor of keeping those sacred texts because the parties that have monopoly profit would like to keep the monopoly profit and they will spend their monopoly profit to fund people who say that less enforcement is always better.

So it is going to be difficult to achieve progress in this area because the parties that have financially gained from less competition are going to work hard to keep their status. So I just want to alert all of you in the media and the enforcement community to be battling courageously for the consumer.

But I think that the bottom line is that we have the tools and we have the ability to get the right answer, and we should use them and we should not be trapped in paradigms from 30 years ago because those are really outdated to the extent that they were even correct 30 years ago, which I would not stipulate to.

All right, that is all.

MR. WERDEN: Thank you. We are going to turn now to a series of questions that I will pose to our panelists. They have gotten the questions in advance and actually done some negotiating. There is a designated first answerer on each of the questions.
But after that, it is up to them to work it out.

So the first question, which is directed initially to Josh, goes like this: Jon’s basic point is that we have more market power than we used to and that is bad. Assuming that we do have more market power than we used to and that it is a significant increase in market power, my question is, do you agree that it is necessarily bad and do you think something ought to be done about it?

MR. WRIGHT: First, no one ever told me there was negotiating. I always get left out.

(Laughter.)

MR. WRIGHT: So let me spend ten seconds fighting the premise and then I will give up an answer. The question is sort of assuming arguendo the increase in market power that then sort of is that a bad thing. I think my ten seconds is almost up. But I will say I am not sure that premise has been established.

But assuming per the question that it is, again, I think we get back to the fundamental point and, you know, some of these old Chicago texts are pretty good, including Demsetz on the point about identification, which I still think is very relevant to our discussions about concentration and price. I
have a feeling you meant a different one.

But I think here we do not know, ex ante --
and this is the fundamental problem -- whether -- we
in antitrust want to care about changes in market
power that are attributable to reductions in
competition. That is not all of the ways in which
market power can be increased. If we want to do
antitrust that is sort of consistent with IO, if we
want to get the economics right, we need to have a set
of tools that enables us to distinguish between those
propositions.

So what do I think can or should be done?

There are simple answers floated around. We could
have -- we could sort of go back -- I do not think
anyone here wants to do that. We could go back to
really simple structural rules that equate competition
and concentration. We could pull dust off the 1968
merger guidelines, do antitrust with our fingers,
count the firms, and pretend as if we can make causal
inferences from changes from concentration to
competition.

We could have bright line rules that have
presumptions of liability if mergers are above X share
or above X dollars. We have one of those in the
Supreme Court. I would count that as one of the bad
cases we ought to get rid of. But there is pending legislation that does something like this. None of that, I think, is based in sound economics. So I think what we are left doing if we properly reject those ideas is making a serious investment both in the academy and in the agencies to improving our tools and being able to answer better some of the questions that we struggle with now with identification. I think we are starting that with merger retrospectives.

I think if you look at the evolution of the way inside the agency empirical analysis of mergers happens now versus ten years ago, much less 20 years ago, the improvement is remarkable. But I think it is a burden on the agencies and on the academy in these areas. You know, like to publish journal papers and whatnot, but sort of engage on these questions, both to fight against oversimplified fixes that will probably do more harm than good, but also to subsidize investment in more knowledge to do a better job designing and calibrating policy with these questions.

MR. WERDEN: Anybody else?

MS. SCOTT-MORTON: Yes, I would disagree. I think we have the tools. I do not think we need to spend ten years developing new tools. I think we
could start now. There is not anything wrong with our
existing standards or economic analysis. I think the
problem comes when you try to apply it. So if you are
in court and, you know, the judge is taking the view
of recent cases that we have seen, which is either
ignoring the facts or ignoring the economic principles
or not applying the horizontal merger guidelines, for
example, in terms of are efficiencies merger-specific,
are they verifiable? Are they cognizable?

I think that is where the problem comes in.

And, of course, if an agency is confronted with, at
the end of the day, they disagree with the firms and
they have to go to court, that is the outside option.
And if you have a very weak hand when you go to court,
then there is not much you can get as a settlement.

So I do not actually think we have a problem
with the economics. I think we are ready to go there.

MR. WRIGHT: Greg, I do not know the rules
on like random intervention, so I am going to make one
in the absence of a rule. So the thing that I have in
mind in terms of getting the -- I think we are all for
getting the economics right. But, for example, some
of these errors go the other way. So it is not a
Chicago text, but in 1968, Oliver Williamson wrote a
pretty well known paper on efficiencies and mergers.
Fifty years later, there is not a single
federal court decision. No merging parties have
prevailed on an efficiencies defense. Fifty years is
a heck of a good winning streak. I agree parties
sometimes do a bad job presenting efficiencies. I
have been inside an agency. But I think there are
places where we could do better. That is one that
comes to mind that sort of cuts the other direction.

DR. BAKER: Just on the last point, I just
want to observe that if the overall overriding problem
is we are worrying about growing market power, sure
there might be good government reasons to think about
ways in which we could do reforms that avoid, you
know, chilling, less beneficial conduct. But the real
problem is to strengthen the antitrust enforcement and
that should be the overriding focus at the moment.

MR. WERDEN: All right. Let’s move to the
second question. You have heard from a number of our
speakers today about the evidence of or related to
increased corporate profits. This evidence seems
fairly clear. The trend is worldwide, but it is more
pronounced in the United States than elsewhere. Here,
the profits are highly concentrated in relatively few
hugely successful companies.

My question for the panel is -- and Jon is
going to go first on this one -- does the presence of a relatively small number of hugely successful technology companies in any way suggest a failure of antitrust?

DR. BAKER: The answer is not per se. I mean, a large and profitable firm’s size and success alone does not mean antitrust has failed. Firms can and do grow large and become successful by providing customers with valuable products and services, and that includes large technology companies.

We want to encourage firms to grow successful and profitable by offering better and cheaper products and services. But we should also be concerned if firms, including large and successful ones, exercise market power, and some of their major markets are threatened to do that through exclusionary conduct or collusive conduct or merger.

Now, I pointed to the growth of dominant information technology platforms as a reason for concern about increasing market power because I think their high margins probably reflect market power in part, not because of their success, per se.

MR. BERRY: Yes, so I think I would combine my answer a little bit to these last two questions, which is that -- and the IT example is good. I think
they have high markups; they have high profits. For
many good reasons, they have high markups. I would
say slightly opposite from Jon. It is not just market
power. It is a combination of market power and doing
things that people want and gaining efficiencies.

So as I said before, it is not bad, per se. But I do think it has implications for antitrust even
if it is not bad, per se. Take two of these firms,
take two of my big wholesaling firms that have an
overlapping set of locations. If the markups are
already very high, the stakes for a merger become that
much more severe because they are already operating on
inelastic parts of their demand curve.

So I think in many cases, we can sort of
litigate whether it was bad whether we got here or
not, and I personally think we are going to figure out
it is a mix of things and we are going to see some bad
and some good. I think what I am more interested in
is the forward-looking discussion of what are the
implications. Now that we are here, is there
something different that we should be doing? Is there
a kind of scrutiny that we should be offering that we
have not offered before. I would really like to hear
from my closer-to-practitioner colleagues what those
things might be.
MR. WERDEN: Do either of you want in on this?

MS. SCOTT-MORTON: I will answer it as an answer to the next question you are about to ask me. How about that?

MR. WERDEN: Okay. That is fine.

Next question, Steve sketched a scenario in which technology is changing in a way that increases the sunk costs and decreases the marginal costs of companies. That scenario rings true even if lots of other forces are at work.

I would like to hear from the panelists on what they think likely accounts for the empirical observation of increased markups over the past four decades.

MS. SCOTT-MORTON: Okay. So I am going to take the first half of the question and then Steve’s question on what do you do enforcement-wise.

I think what we need to do is adjust our enforcement analytics to fit the market structure as Steve suggested. So let’s take, for example, the presence of network effects. Network effects are when the value of the product rises in the number of users. So a social media platform is more valuable to me the more other people are on it. What do we get when we
have network effects? We get concentrated market structures. Everybody wants to be on the same network because all their friends are there.

So we get market shares that go 99 percent and 1 percent, or a few little epsilons. We do not see market structures of 70/30 or 50/50 in a world with network effects. So we are necessarily going to see concentrated markets. Is that a problem? No. As we have said already that is, per se, just that fact, that is not a problem. But we need to recognize that the locus of competition has shifted.

Competition in that market does not display itself in the market. The 30 is not competing with the 70. No, it is competition for the market. Who is going to be the winner-take-all? Who is going to get to be the 99? There are some firms that start out together and one of them gets ahead and the market tips and that winner gets the 99 percent.

Okay. So now that we know that the locus of competition is for the market not in the market, how would we do antitrust? We would care an awful lot about entry. We would care an awful lot about potential competition. We would care an awful lot about acquisitions by the 99 percent of a teeny little epsilon percent. Why? Because that epsilon percent
does not have a lot of share, but that is where the
competition is coming from. That 99 percent guy is
afraid the epsilon is going to become one and attract
all the teenagers and there is going to be a flip.

So we care a lot about that epsilon and that
is where the competition is coming from. And we need
to dust off our theories of harm when it comes to
potential competition. We need to stop investing so
much importance in market share. The market share of
the little guy is not big, and when you calculate the
Herfindahls, nothing is going to happen when you
analyze this merger.

Does that mean there was no competitive
significance to the little player? Quite the
contrary. All those little players are the only ones
that are making the 99 percent pedal faster and work
harder to keep consumers because they are all
potentially able to overthrow the incumbent.

So that is a way in which we have standards
lessening competition and so on that work perfectly
well in an internet platform or a network effects
market. But we need to think about focusing our
enforcement efforts at the place where the competition
is, which is a little bit different in some of these
markets than it would be historically in, say,
automobiles.
So I think there are big implications for antitrust enforcement and I would point people in that kind of direction.
MR. WERDEN: Do you want to weigh in, Josh?
MR. WRIGHT: I think I agree with probably everything in that in terms of the description of that and other contexts being appropriate to worry less about the shares and worry more about the competitive constraint imposed by the rival. I think that is sort of a common theme, focusing on the competitive constraint directly rather than using shares as a proxy that probably holds across a bunch of areas.
I will make the observation that it is -- with respect to Steve’s explanation with sort of increasing sunk costs and reducing marginal costs -- that one of the implications -- and I think this is a hearing for another day. But one of the implications is that a lot of those industries are industries that are intellectual property-intensive and one of the potential tensions that arises.
And I think the agencies have to engage with and be thinking about, as do academics who are thinking about these things, is the idea that we sort of are chasing markups leading us into those
industries invite a risk of having antitrust and IP sort of go back to the '60s and '70s there. That is where they ran directly into each other.

I think a lot of work has been done to try to get antitrust and IP to serve as complements in the direction of competition innovation rather than substitutes. And there needs to be in those areas -- if that indeed is the right story, I think there needs to be sort of significant thinking about how to make sure that complementary relationship stays intact.

MR. WERDEN: Let’s move on to the next question which concerns dynamism. You have heard quite a lot about that today, as well. Jon refers to some evidence on dynamism as one of the major reasons for rejecting a benign explanation for some of the trends that have been observed. But I will point out to our panelists and our audience that the databases on which economists rely may be missing a lot.

The broadest database that I am familiar with is the Census Bureau’s business dynamic statistics, which is a very high-quality longitudinal database that includes every business in the United States with at least one employee. But it does not include any of the businesses with zero employees. And you say, well, how big of a deal can that be?
Well, the answer is a presentation done by Census economists a few years ago revealed that between 1997 and 2010, 75 million startups in the United States had zero employees while only 7.6 million had one or more employees. So over 90 percent of the startups in the United States are being missed in the data that shows entry rates going down.

So my question is, what data, if any, is telling on dynamism? And Steve is going first on this one.

MR. BERRY: Okay. So I will start off confessing my confusion a little bit. When we talk about market power, I know what we are talking about. We are talking about the ability to hold price above marginal costs. When we talk about dynamism, a few things come to mind and they seem different.

One is a simply descriptive question which we might want an answer to, which is has turnover in some sense changed? Are the rates of entry and exit from various industries fundamentally changed. I think one of the things Greg is asking how good is the data on that. I do not actually have a great independent opinion on how good is the data on that.

But there is another thing that I think Jonathan suggested, which is it is not a descriptive
matter of entry and exit. It is a question of whether the economy is delivering important innovations to consumers in the form of lower costs that are actually passed through to lower prices and/or better products.

It is possible, as with our last question, that you have a set of really big, great, innovative firms who protect their position by being very innovative. In that sense, we would have a lot of innovation and not much turnover. I do not know if that is dynamism or not.

It does make me think hard, though, about Fiona’s point about potential competition. I think maybe this is what Jonathan is getting at. If there are firms who got where they are by being innovative, how do we ensure that the innovation continues? Surely not by seizing their intellectual property, for example. That seems bad.

But, you know, do we take more seriously potential competition? Is this data that Jonathan is referring to evidence of a lack of potential competition? I am a little confused by that. It is more on sort of actual entry and exit. But these are always first-order questions. These questions about innovation are always first-order questions.

I think if we accept that we have these very
large, very profitable, certainly, firms that got
where they were by innovating, again, I would sort of
say, well, let’s start from where we are and ask how
we move forward. I do not know that we have
dispositive evidence, but it seems like an important
question.

MS. SCOTT-MORTON: Yes, I would agree with
everything Steve just said. And I think then the
purpose of antitrust enforcement is to ensure that the
large firm that got where it initially got by
innovating and serving consumers continues to do that.
If there is not effective antitrust enforcement then
you have the possibility of entrenchment and monopoly
profits and a decline in the kind of innovation and
price competition that we would like to see.

So it is very important that we have
effective antitrust enforcement in this sector. And
if we do and we continue to have high concentration,
then they are competing hard and we are getting what
we want as a society. But if we do not enforce here,
then I think we cannot be sure that we will.

DR. BAKER: I would like to just respond by
reminding you that I talked about six different
indicators of declining dynamism. Really only like
one or two depend on the data set that Greg is worried
about. I was talking about secular slowdown and
business investment in rising profits to the share of
GDP, and a slowed rate at which firms expand when they
become more productive and shifting growth and
productivity, gains from entrants to incumbents and
the growing gap in accounting profitability between
the most and least profitable firms, and then also a
decaying rates of startups, which is more about the
data set that Greg is emphasizing.

MR. WRIGHT: One small point on the
relationship between business dynamism -- I think for
this purpose, however, we defined it and antitrust --
is that, of course, there are issues to explore here
on potential competition. But a point of agreement
with Jon is a public restraint scenario where the FTC
has been very active, sort of state or locally imposed
barriers to entry that reduce the ability for entry
are a big deal here and an area I do not think the FTC
needs to be convinced that it is worth spending time
on. It has done for a really long time. It has done
in a bipartisan and consensus-orientated way for a
really long time.

My own view is that area is probably -- if
we are looking for an area to agree on for more cases
to bring, I think those cases have legal issues with
state action defense and whatnot. But if you want to target the resources of the agency at stuff you know is anticompetitive, state barriers to entry, including occupational licensing, is pretty good stuff and stuff that I think the agency would be well served. You know, we do lots of competition advocacy, but it used to be an area where we brought a few more cases.

MR. WERDEN: Shall we go after the lawyer monopoly first?

(Laughter.)

MR. WERDEN: I think we can get an agreement right here, that is the one that is really problematic.

DR. BAKER: I am in, Greg.

MR. WERDEN: Okay.

DR. BAKER: You are asking economists that question.

(Laughter.)

MR. WERDEN: Well, they know.

Anyone want to say anything more about dynamism or are we done?

Okay, good. So my final prepared question for the panelists is a broad policy question. If the plan is to somehow ramp up antitrust and the solution is not just to spend more money at the agencies,
which, of course, is always welcome, what should be
done and by whom? Congress, the courts, the agencies?
And, in particular, I ask what one change in substance
or procedure do you recommend and what one change
would you most strongly caution against?

I am going to start with Jon.

DR. BAKER: So in the book I mentioned that
is coming out next spring, I talk about a number of
substantive presumptions for ramping up antitrust that
I would like courts to adopt. But I do not want to do
the equivalent of picking a favorite child. I cannot
really describe them all here. So instead, I am going
to give you two cautions, rather than one of each.

So on substance, I would caution against
presuming that vertical conduct is procompetitive, and
I think I talked about why in my presentation. And on
process, I would caution against introducing direct
political influence into antitrust enforcement.

MR. WERDEN: So why don’t we just go down,
Steve next.

MR. BERRY: Okay. So I really wanted to
hear the practitioners more than I wanted to hear
myself talk about it.

MR. WERDEN: You can pass if you want.

MR. BERRY: But let me just say one quick
thing, which is -- follows up on this last point. I think in general the state of the evidence -- and I think this is even consistent with Josh’s concerns about the state of the evidence -- is that I think we could use with some flattenings of prior and some less presumptions in general, that I think it is a time when things are changing, when there is a lot of interesting data and we are not sure what it means.

The idea that we have very strong presumptions, say about whether it is vertical or potential competition, big being bad, I think a lot of those presumptions should be at question and that we should be acting as though before we do the analysis, before we get the data of the specific situation, we should be, you know more modest and our Bayesian priors should be flatter I think just in general.

MS. SCOTT-MORTON: And since current practice is to be extremely worried about over-enforcement and not at all worried about under-enforcement, that would flatten. I agree.

I do not have any cautions, so I am going to do three recommendations to make up for Steve’s one so we are symmetric. I think it would be -- I am not going to identify who should do this because I am not enough of an expert in the area. But I think it would
be helpful if courts were to follow the definition of consumer welfare that is correct and the horizontal merger guidelines, in particular, that efficiencies have to be cognizable and merger-specific and benefit consumers. That would be a big help. A second big help would be if we were explicit about our concern for potential competition and instructing courts to consider that as an important element in the markets where it is proven to be an important element.

Third, I would say that there is, as Josh mentioned, I think an increasing use by firms of government processes to protect themselves from competition and to exclude, and I think it would be helpful if someone could figure out a way to adjust Noerr-Pennington and similar kinds of laws to make it less possible for incumbents to keep out potential competitors and entrants. So those would be my three.

MR. WRIGHT: Steve and Fiona stole my thunder. But let me say I would, one, cosign Steve’s proposal that priors be flattened here and we take sort of hard looks at presumptions that are driving enforcement, whether they are structural presumptions in favor of more enforcement, whether they are presumptions that go the other way. I think
flattening priors and reevaluating those is no time like the present to take out zombie presumptions while we are reevaluating the economics.

I would say for the agencies that certainly includes -- Congress has such bright-line proposals in front of it and I am sure we would like to hear from the agencies about what they think about those bright-line presumptions. But I would also say in addition to quickly cosigning the reallocation -- I guess I am not allowed to increase the budget -- so reallocation toward public restraints where I think a disproportionate amount of the harm -- you know, you line up 100 economists and 99 are going to agree that that stuff is harmful. We are not going to have sort of big reasonable fights over which way that the welfare effects cut. So I would say reallocation in that direction.

And the last one I would say, which is more procedural, is resource allocation inside the agency, because I do think there are a lot of really tough questions facing the agencies and facing IO economics and helping guide through what I think is a really interesting time and how we calibrate antitrust policy.

There are 100-some PhD economists between
the agencies, and I guess I am not allowed to raise
the number to 200 without firing some lawyers, which
would not be popular here. But I think there are more
ways to more deeply involve economists inside the
agency in these discussions. I think the more of
that, whether it is through 6(b)s at the FTC, whether
it is -- there are a lot of ways to do it. And I
think the more of that, the better.

DR. BAKER: I would like to comment on
something that Josh and Fiona were talking about about
the -- I really do not think -- I mean, sure there are
public restraints that are harmful and appropriate to
be concerned with if you want to enhance competition.
But I do not think the idea of reallocating the FTC
and DOJ budgets towards public restraints is
necessarily a good idea.

What I am worried about is that a lot of
public restraints -- you know, there are other
mechanisms that are outside of the antitrust laws,
legislative, for example, for addressing them and
probably more effectively, or advocacy in front of
other regulatory agencies and the like. But it is the
antitrust agencies, you know, and private plaintiffs,
too, in the states, but the antitrust agencies are
really the most important actors in stopping private
anticompetitive conduct, you know, or at least along
with other actors. And I am worried about taking
enforcement resources away from those important
efforts by the antitrust agencies, you know, the way
that Josh’s proposal would suggest.

MR. BERRY: So it is clear we think the
budget should go up.

MR. WERDEN: You will get no argument from
me on that, and you can start with my pay.
(Laughter.)

MR. WERDEN: We have a bunch of questions
from the audience. Two of them are almost identical.
So, obviously, there is a consensus that this is the
most important issue because we have two who agree.

DR. BAKER: I wonder if they were sitting
next to each other.

MR. WERDEN: The handwriting is almost
identical.
(Laughter.)

MR. WERDEN: I think this is not two
independent draws, but what the heck.
So I will rephrase. What, if anything,
should the antitrust agencies be doing about Amazon?

MS. SCOTT-MORTON: About what?

MR. WERDEN: Amazon.
MR. WRIGHT: Doing the same thing they do in all of the other --

(Laughter.)

MR. WRIGHT: Analyzing -- I mean, I think the point of the conversation and the reason for the silence is I think we are all believers in the idea that you get the tool kit right and you fight over how to get the tool kit right and you work out how to get the tool kit right and you apply it evenly across the economy. You know, you could take account of differences, but you do not have different tools for different firms.

MS. SCOTT-MORTON: You do not pick out a firm and say how do we --

MR. WRIGHT: That is what I am saying.

MS. SCOTT-MORTON: Yes.

MR. WERDEN: So if I rephrase the question, are you aware of any antitrust case that the government should have brought against Amazon, but did not? Would you say no?

MS. SCOTT-MORTON: Well, if they should have brought it, then they should have brought it.

MR. WERDEN: Are you aware of one?

MS. SCOTT-MORTON: Oh, am I aware of one?

No. MR. WERDEN: No, okay. Okay, that is
enough for Amazon.

(Laughter.)

MR. WERDEN: We have a question about static versus dynamic view of market power. This came up quite a few times in the conversation. But since I have the question, I will put it again.

Because profit is the necessary incentive for innovation and investment, how should we think about many of the things we are observing today, like high margins and network effects, in terms of a dynamic view of how competition works?

Fiona, you addressed this quite a bit already. Is there anything you would like to add?

MS. SCOTT-MORTON: I mean, this is why Steve and I have been saying, let’s look forward and let’s try to keep firms honest. You have a good idea. You do something really well. You innovate. You get enormous amounts of revenue. People are very happy. That is excellent. But then it is very easy, if we look at the historical record, for such a firm to find it easier to exclude rivals rather than compete.

Competing is hard, it is hard work.

So we need to have a tool kit that is up to date and used to make sure that as we move forward a firm that has significant market power is getting it
honestly by competing on the merits and delivering innovation and low prices. And if that is what we are getting, that is excellent. But it would be not efficient and not good for consumers to stop enforcing against these firms.

MR. BERRY: Yeah, I mean, Fiona mentioned earlier the idea of rivals buying competitors just to remove the potential competition. We have talked about that a bit. I do not think you are blaming the innovative firm or punishing the innovative firm by trying to see if we can stop that from happening. And I have a question, I am not sure whether we should be looking at acquisitions by these firms differently than we would and I do not think that is blaming them or depriving them of the benefits of their innovation.

MR. WERDEN: Well, let me slow things down a little. After I ask the question, you can go next.

Somebody who has worked in an agency realizes -- and I am sure our panelists do, too -- that none of these questions are as simple as they might appear in a panel discussion. So if you get some, let’s say, dominant technology platform and it is proposing to buy some nascent competitor that might come up with the next greatest idea or might have it already but has not got it to market, how do you know
whether to think, well, this is bad because this threat to the incumbent monopoly is being squelched or this is good because this is the way that this new idea will come to market?

MS. SCOTT-MORTON: So here I think we rely on Jon and his error cost framework to think about this. If you do not know whether the acquisition is going to be procompetitive or anticompetitive, you have to think of the harms you are creating by getting it wrong. And if under-enforcement creates tremendous harm because the dominant technology platform has lots of market power and that is going to be a huge problem, then we have to make sure we are weighting that risk appropriately.

And it may be that we do not have very much information about or as much as we would like about the potential competitor as we do in markets where we are assessing whether a 15 percent share should be allowed to buy a 20 percent share. There is a lot more information about the products, about the way competition arises, about the prices, and so forth when you have competitors in the marketplace.

When it is potential, the problem is much more difficult. Does that mean there is less welfare at stake? Not at all. So just because there is less
information does not mean we get a free pass to do nothing about it.

DR. BAKER: And I wanted to add, sort of going back to the original question about where they were talking -- which was asking about static and dynamic competition, that some people have the idea that competition is somehow bad for innovation and that when we are acting as antitrust enforcers, if that is who we are, to increase competition, we are just going to -- we are going to benefit the buyers at lower prices which somehow will impede innovation and that there is a trade-off. That is not necessarily right and it probably is not right on average.

There is lots of evidence that competition spurs productivity, lots of economic studies. And on innovation particularly, I read the literature as saying the motive that firms have to innovate by escaping competition is probably stronger on average in the data than the motive to innovate that comes from appropriating more returns, you know, on the margin.

And it is not surprising, you know, because firms that are making major R&D investments usually have a lot of reasons, other than preexisting market power, to appropriate sufficient returns, even if
there is some imitation. And successful incumbents may be discouraged from developing new products because that would cannibalize their existing rents and because as Steve and Fiona have been emphasizing, firms with market power can discourage new competition with exclusionary conduct.

So there is every reason to think that more competition is good for society, for dynamic innovation-oriented productivity reasons, not just for static price and quality reasons.

MR. WRIGHT: So long as we are including the -- maybe the caveat or the definition in Jon’s claim that more competition is good, that we are not equating competition to the number of firms. I get nervous about these discussions when they convert to policy because the temptation is when I have a really, really hard policy problem to figure out, like is that acquisition of the nascent or small competitor a good or bad thing on net, on welfare, the trade-offs are really difficult to figure out.

And it is sometimes tempting, and I think history teaches us certainly in antitrust, that there is a temptation that is often succumbed to by agencies to sort of cling to those bright-line presumptions because you can do them. And that I think is
something that, in that area, we certainly do not
have enough empirical evidence or economic theory
to do.

This may be an area I think Fiona and I
disagreed some about whether we have all the tools we
need. And I think we probably agree, we have most of
what we need, but I think there are areas where we
could do better and even if that means -- doing better
means learning more about the distribution. Potential
competition is one of those areas.

MS. SCOTT-MORTON: But here is the problem,
Josh. If you say we do not know enough to draw a
line, I am fine with that. But that is not the same
thing as saying because we do not know anything, we
are going to decide all the cases so that it is fine
for the big firm to buy the potential competitor.

MR. WRIGHT: You certainly did not hear the
latter claim out of me. I voted these cases and to
bring them.

MS. SCOTT-MORTON: Okay, yeah, let’s not go
there, but yes. Then I agree.

(Laughter.)

MR. WERDEN: Okay, good. So rephrasing
these next two questions. Economists are really on
top of how goodly or badly market concentration tells
you that there is competition or not competition in an
industry. So we do not want to further that
correspondence. The question is, what else, what would
you look at, if you wanted to know how competitive a
market sector, the whole economy is?

MR. BERRY: Well, it is easier on the
sector, right? And the fact of the matter is there
are a lot of tools of merger analysis looking at the
close substitution of products and differentiated
product markets, for example, which I think are well
accepted as being much better than concentration
measures. And in my understanding, concentration is
used largely as a screen -- I am not the practitioner
-- and I think some of us may be questioning that a
little bit.

But in horizontal mergers really I think
practice has moved very, very far away from
concentration measures and toward the closeness of
substitution of merging parties.

I think there is less consensus in vertical
mergers, but there are a new set of tools that look at
changes in bargaining that result as a result of
vertical competition. I think those are not as well
accepted outside of economics, and I understand some
of the legal fights going on right now are not even
over the specifics of whether a particular merger should go forward as much they are about whether those economic tools have value.

So I think there are, in both horizontal and vertical cases, real tools of economics that focus on I think what is actually at issue in these cases both horizontally and vertically. Horizontally, they are well accepted and maybe less so vertically.

MR. WERDEN: When you get to a case you are going to have information that a researcher would not have, a lot of it. It can be very useful and we have tools for analyzing it. I think that where the question was coming from is, as a researcher, you know, as a policymaker, if you are looking at the whole big picture, what is it you should look at.

MR. BERRY: So I am such a micro guy, I find it hard to move past the aggregation is the same of its components. I think it is very hard to do at the broad aggregate level. Broad evidence on markups, broad evidence on profits are interesting and they do not particularly get to the whys. I think they are a flag of interest, I would say.

MS. SCOTT-MORTON: The field of IO is a micro field, so we are just really bad at answering this question. And if you look at Jon’s list of
a lot of those people are in finance or macro or labor --

MR. BERRY: Labor.

MS. SCOTT-MORTON: -- that I have come into this empty space that we generated, which is how do we describe the economy as a whole, because our field does not do that. And so that is partly why we have these conflicting methodologies.

MR. WERDEN: Don’t you wish we had some occupational licensing here?

MR. BERRY: You know, in all honesty, I have said this before, it is actually excellent that those papers are raising these questions. That is an excellent thing that these questions are being raised by those papers, and I think people deserve a response. In the meantime, we do not necessarily believe the causal conclusions of those papers.

MR. WERDEN: I was just handed this emergency question. Are there important competition issues that antitrust cannot handle? And I take this to be antitrust enforcement as we know it. So these would be problems that would be addressed in some other way than antitrust cases.

DR. BAKER: So sure. Natural monopoly. You
have to regulate that. You cannot use antitrust --
MR. WERDEN: We did that. We are kind of past that.
MS. SCOTT-MORTON: No.
DR. BAKER: Well, it is important to --
MR. WERDEN: It is almost all gone now.
MS. SCOTT-MORTON: Your electricity bill, I am afraid to say, has some regulation in it.
MR. WERDEN: A little bit. But I am at the mercy of an unregulated water monopolist.
DR. BAKER: And then some of the governmental restraints we were talking about probably have to be dealt with legislatively.
MR. WERDEN: Apart from regulating monopolies, which is an old but still good idea, is there anything else you would suggest?
MR. BERRY: Well, I mean, I do think when people talk about the tech companies -- and this is a good question for the FTC -- is that people are sometimes talking about data and other forms of social relationships that I think are difficult to handle outside of the existing antitrust framework and may be subject to different kinds of regulation.
And I think sometimes when people talk about old-fashioned antitrust they are also talking about,
for example, political power, and I think that is way outside the realm of traditional antitrust regulation. I think it should stay there. But it does not mean there should not be some response.

DR. BAKER: And then also leader-follower conduct that leads to tacit coordination, that is very hard to address through antitrust laws.

MR. WERDEN: Do you think it should be addressed at all?

DR. BAKER: Well, you mean do I think some other actor could do a better job than the courts on that?

MS. SCOTT-MORTON: So I do not want to --

DR. BAKER: They have the same problem that antitrust agencies have.

MR. WERDEN: So that would be a no?

DR. BAKER: You know, it would be nice to be able to do that, but I am not sure how.

MS. SCOTT-MORTON: So I would like to follow up on what Steve said. I mean, there is political power, there are things like privacy, there is misinformation. It is not clear that vigorous competition fixes the problems that people want to see fixed in those domains. And it might be that you want another agency or some other law to do that, if that
1 is what the community would like to see done. 
2 So I think there are calls -- you read in 
3 the paper about people who would like antitrust to -- 
4 or perhaps think that antitrust can fix everything, 
5 and my view is that that is not going to work, that 
6 antitrust is very well geared, it is a set of economic 
7 tools, it is very well geared to certain kinds of 
8 problems and that we should look elsewhere to other 
9 kinds of regulations if we have different kinds of 
10 problems to fix. 
11 MR. BERRY: But, Greg, let me come back to 
12 that. I am completely baffled that you are subject to 
13 an unregulated water monopoly. I know we are here and 
14 I still am confused by it. 
15 MR. WERDEN: It is not my house here. 
16 MR. BERRY: Yeah, I just mean there -- 
17 MR. WERDEN: There are many unregulated 
18 monopolies in this country. 
19 MR. BERRY: I agree. And why we gave up on 
20 so many of them, I am still baffled by. 
21 MR. WERDEN: Okay. We are running out of 
22 good questions here. So I have to say we are done. 
23 But I will give the last five minutes to our panelists 
24 to say whatever they choose to say to wrap up. 
25 MR. WRIGHT: Remind them about the book,
Jon.

MS. SCOTT-MORTON: Yeah, there we go.

DR. BAKER: My publicist insists --

MS. SCOTT-MORTON: Good idea.

DR. BAKER: -- that every one of you go out and buy it when it is available next spring.

MR. WERDEN: Are you offering a discount?

DR. BAKER: You will have to discuss that with my publisher.

MR. WERDEN: Hmm. Have you set the price yet?

DR. BAKER: I do not think it is even available yet.

MR. WERDEN: Okay. It is too soon to talk about the book.

DR. BAKER: Yeah.

MR. WERDEN: No?

MS. SCOTT-MORTON: I think it is great we are having these hearings.

MR. WERDEN: Okay. Well, then we are going to take our break now a few minutes early.

(Applause.)

(Panel 2 concluded.)
PANEL 3: THE REGULATION OF CONSUMER DATA

MR. SAYYED: All right. Let’s get started.

This is the last panel for the day, and as I mentioned at the beginning for those who have not read the website or were not here at the beginning, because at least the potential for weather difficulties, we are going to reschedule tomorrow’s sessions to probably sometime late in October.

So we turn now from mostly antitrust, but not exclusively, to a consumer protection issue, and James Cooper, now with the FTC, will moderate this panel.

MR. COOPER: All right, thanks, Bilal.

Welcome, everyone. Good afternoon. I am James Cooper. I am the Deputy Director for Economic Analysis in the Bureau of Consumer Protection here at the FTC and it is my great pleasure to be here and take part in these hearings and moderate this August panel.

Before I get started, I have to -- recently, I am on leave from academia so I am not used to doing this, but I am going to try to say zero things of substance today. And in the off-chance I do, anything I say is just my opinion only and not necessarily that of the Federal Trade Commission and any individual...
commissioner, including the one sitting next to me.

COMMISSIONER OHLHAUSEN: Most especially not.

DR. COOPER: Most especially the one sitting next to me.

COMMISSIONER OHLHAUSEN: Just kidding.

James and I have worked together many years.

DR. COOPER: Yes. All right. So as you probably already heard today, nearly 25 years ago, Chairman Pitofsky, he began the FTC’s journey on the path to become the nation’s privacy and data security cop. Along the way, much has changed.

When this all began, things like the iPhone, Facebook and Google did not even exist. But, today, we find ourselves in a digital economy that lives on consumer data. Clearly, this evolution has provided tremendous value for consumers. We have vast troves of information at our fingertips. Most of us cannot get anywhere without our phones anymore, myself included. And we can connect with millions of people instantaneously, as I am sure many of you are doing right now via Twitter. I could go on.

But at the same time, the fact that consumer data is so tightly woven into the fabric of today’s economy has presented unique consumer protection
challenges. Part of what I think makes these issues so tricky may stem from the fact that there is no agreed upon framework for analysis.

As we have heard a lot today, antitrust is married up with microeconomics. It has been for about the past four decades. Privacy and data security, however, have yet to find such similarly suited mates. So the FTC, you know, or clearly economics has an important role in shaping privacy and data security policy.

For example, the seminal work of the economics of information that garnered Nobel Prizes for people with names like Akerlof, Spence and Stiglitz teaches us generally that reducing the cost of information flows typically improves market performance because it helps consumers make better choices. But at the same time, privacy and data security policy also involve significant consumer values, such as dignity, the right to be left alone, and autonomy, which are really difficult to balance in a typical benefit-cost framework, though they are equally important. Never one to shy away from a challenge, the FTC has been in the forefront of trying to tackle these complex and weighty matters.

As I mentioned before, beginning in 1995,
when Chairman Pitofsky convened a series of workshops designed to educate the FTC and the public on consumer protection issues surrounding the online use of consumer data and continuing with the 2012 policy report and subsequent reports and workshops examining issues like big data, the internet of things, data brokers and most recently informational injuries through what former Chairman Bill Kovacic has called policy research and development, the FTC has continually attempted to calibrate its enforcement posture to balance consumer interests and privacy and data security with the remarkable benefits that the digital economy provides, and I think that these hearings will continue that tradition.

So this brings me to the subject of our panel today. Today, we appear to be at an inflection point. Many of the same undercurrents that are animating the challenges to the antitrust status quo that were addressed earlier today and that will be addressed in other hearings, coupled with catalysts of high-profile data breaches, the use of social media to attempt to influence the 2016 election, Cambridge Analytica, and the coming online of GDPR, have caused many to question whether the current privacy and data security framework needs a rethinking.
For example, some have suggested the U.S. should adopt a more European-like approach. And it appears that California has already taken up the mantle. We see legislative proposals in various forms kicking around Congress.

So today, we hope to work through some of these thorny issues, examining where we are, where we might go, and what that might mean for both consumer privacy and the digital economy which has provided us with so much.

So I am very happy, we should all be happy to have an all-star panel on this journey today. To my immediate left is Maureen Ohlhausen. Maureen is currently a Commissioner of the Federal Trade Commission. She was acting Chairman from January 2017 through April 2018. Before that, Commissioner Ohlhausen was a partner at Wilkinson Barker Knauer where she focused on FTC issues, including privacy and data protection. She also served at the FTC for 11 years prior to that, where she was the Director of the Office of Policy Planning. And prior to that, she was a clerk for Judge Sentelle on the D.C. Circuit.

So next to Commissioner Ohlhausen is Howard Beales. Howard is a Professor of Strategic Management and Public Policy at the George Washington University.
Importantly for the purposes of our panel today, Howard, from 2001 to 2004, served as the director of the Bureau of Consumer Protection. In addition, in his earlier stints at the FTC, he helped think about and really develop a lot of the framework today for how we analyze informational issues surrounding consumer protection.

Next to Howard is Daniel Solove. He is the Jon Marshall Harlan Research Professor of Law at the George Washington University. Daniel is one of the leading privacy scholars in the country. In addition to writing some of the seminal articles on privacy, he, along with his coauthor Paul Schwartz, is the author of a case book on information privacy law that everyone, including me, uses to teach that subject.

He is also the CEO of TeachPrivacy and runs a myriad of privacy programs, which unfortunately for us may mean he has to cut out early -- I don’t think he will -- because he has something going on tonight, including his annual privacy forum, privacy salon, things like that.

And then, finally, last but definitely not least, David Vladeck is the A.B. Chettle, Jr., Professor of Law at Georgetown University Law Center. And he, like Howard, was the director of the Bureau of
Consumer Protection from 2009 to 2013. And before that, he spent 25 years in public citizen litigation groups.

So we are kind of lucky here, I mentioned, to have both Howard and David, because in their time frame with Lydia Parnes and kind of in between as well, really helped usher in the era of the FTC being involved in privacy and data security and really kind of being at the helm of that in large part.

So what I want to do with the format today is we are just going to have a discussion. We do not have any presentations, but we want to drill down on some questions and we also will have, if you have questions from the audience, we will be taking notecards to -- I guess there are designated people to take those questions, and we will certainly save some time at the end to address these.

So let me get started. The big picture, headline question of this panel is to kind of see and take stock of where we are in the privacy and data security regulation in the U.S. and where we need to go. And I think if we are going to assess that, maybe at sort of a higher level, we should think about what would be the goals of a privacy and data security program. So at a high level, what should a privacy
and data security program be concerned with? What sort of values should it be protecting? And how might we think about measuring whether that goal is accomplished?

So, Maureen, I want to have you take a first crack at the question, and then invite others to respond or react.

COMMISSIONER OHLHAUSEN: Great. Well, thank you, James, and I am delighted to be here. Thank you to the organizers for including me in the panel.

This is a topic I have thought a lot about. What are the values that we are trying to protect and pursue in our privacy and data security enforcement in the U.S.?

I would say one of the first values -- because our authority under the FTC Act, right, is deceptive or unfair acts or practices in or affecting commerce. So, first of all, it is commercial. Everyone forgets that one at the end, but it is in commerce. And then deceptive, that means there was a promise made to a consumer that is not kept, or unfair, which means there was an act or a practice that caused substantial injury to a consumer that the consumer could not reasonably avoid that is not outweighed by countervailing benefits to competition
or to consumer protection.

Now, of course, the FTC is not the only actor in this case. We already have lots of other or a certain number of other privacy laws. You think about HIPAA, you think about financial privacy, you think about the CPNI rules for communications data. So those are areas where, in a way, if you think about it, we have already, as a society through our political system, decided there are special buckets of information that need special protection. So where does the FTC fit in there?

First of all, to talk about deception, I was actually at the FTC back when we brought the first online privacy case. Dan Caprio was there with me as well and some other people in the audience probably, too, under Chairman Pitofsky in the GeoCities case. So they had made a promise about how they would collect or use data and they did not keep that promise, and we have brought lots of privacy cases alleging deception since. And what we are trying to protect there, I think, is twofold.

One, it is consumer sovereignty. The consumer made a choice and that choice was not respected. So I think that is the primary thing. There is also a competition element there, because you
certainly want to allow the marketplace to operate in an efficient way, where you have someone not getting a competitive advantage because they have lied about what they are doing and they actually are not adhering to it, maybe it is costly. I mean, that was like in the Uber case that we brought. They had initially promised that they were going to do certain things with the data to stop accessing it, and then it turned out to be kind of expensive to keep that promise. So we had to modify our order. So I would say the first thing is consumer sovereignty.

But then the second thing I think that we are supposed to be protecting is protecting consumers from substantial injury, and that is captured in our unfairness authority. Now, what is substantial injury is really the question, and you do not always need a promise made to consumers. In fact, unfairness I think works particularly well when there has not been a promise made to the consumer, but there is sort of an expectation that consumers will not be injured through data collection and use.

So some of the cases that we have brought in that space involve things like collecting and sharing realtime location data about consumers because that
can be abused in a way that can be used for stalking, right? So there is a health or safety risk. Certainly, the collection of financial information or the failure to protect financial information that is sensitive, so it could be used to hurt consumers financially.

We mentioned the informational injury workshop, and so one of the things that I tried to do with that is actually come up with a little bit of a taxonomy of the different harms that we have addressed through FTC enforcement. And what I came up with, doing a review of all the cases that we have brought in the privacy area, the first one I have already mentioned, which is the distortion or not respecting consumer sovereignty through deception. Financial harms, health and safety, I mentioned that one already, and unwarranted intrusion.

So cases -- we have had some where -- we had the TRENDnet case where there was an internet-enabled camera that had a pretty obvious flaw in its software so that anybody who had the IP address could hack into this camera that was sold to be used for home monitoring and watching your kids. So we think, well, that is intrusion. We also had the rent-to-own, I think it was the Aaron’s case. David and I agreed
very vigorously on that one.

MR. VLADECK: Well, it was the DesignerWare case, the predecessor.

COMMISSIONER OHLHAUSEN: DesignerWare, right, right, very good. But where the laptops had a program that could turn on the camera and companies could use that or take screenshots.

And then the last one is reputational injury. My view is at the FTC we have never brought a case purely based on reputational injury, but reputational injury has been certainly present in some of the cases that we have brought, such as the Ashley Madison case. So I would say those are the -- reputational is a little, I think, more controversial, but, otherwise, I think those are the types of things that the FTC’s approach, the authority that we have been given, those are the values that we should be pursuing in privacy enforcement.

DR. COOPER: Would anyone else like to weigh in on that, sort of at a high level? Perhaps even leaving aside the FTC’s goals, what are some things that -- what would we think of, what should we be thinking of when we think about an enforcement program or a regulatory program to protect privacy, which sort of values should it be protecting? What should we be
MR. VLADECK: So let me just add to Maureen’s point about the DesignerWare, Aaron’s kinds of cases. You know, Ashley Madison, I am not sure is a reputational harm case only. And I think part of the struggle -- and I am glad that we have the workshop on informational harms -- is they all sort of fit generally into what we used to think of as an invasion of privacy tort, but they are very hard to label. So in Ashley Madison, marriages were broken up and --

COMMISSIONER OHLHAUSEN: People committed suicide.

MR. VLADECK: People committed suicide. So labeling that kind of harm, you know, is difficult. But I think partly what we ought to focus on is the nature of the intrusion. So in Ashley Madison, it is intruding into very personal relationships. In DesignerWare and Aaron’s, it was intruding into the home. I mean, the real problem in those cases was that cameras can be activated remotely while people were sitting on their couch or doing whatever.

And so I agree that it is important to try to see if we can come up with a taxonomy, but a lot of this really just sort of depends on context.
DR. COOPER: Since David said taxonomy, I don’t know, Daniel, if you would like to jump in. Daniel wrote one of -- A Taxonomy of Privacy, which is kind of a seminal --

MR. VLADZECK: Right. That was not inadvertent.

MR. SOLOVE: Well, I would say there is obviously protection of consumers from harm, which I think is important, and a lot then depends on how we define harm. I tend to define harm broadly to also encompass risk, which I think is a very important concept.

There is also the broken promises, that it is very important that if a company makes a promise, that it be held to that promise. Otherwise, the entire self-regulatory regime collapses, because the privacy policies are meaningless then. So it is nice that the FTC has a backstop to that and enforces.

I think there is also an important component to an enforcement regime that I think the FTC can and sometimes has gotten involved in, which is consumer expectations. Even if it is not a direct promise, consumers have expectations about how their data is going to be handled and used that are often and sometimes at variance with what is said in a privacy
policy or with what companies do.

There have been studies about consumer attitudes about privacy and the vast majority of people agreed with the statement that if a company has a privacy policy, it does not share data with third parties. So there is definitely a lot of misinformation out there. Consumers have incorrect expectations.

And the FTC can play a very important role in helping to make sure that faulty consumer expectations are not exploited. So companies, you know, knowing that consumers kind of already have this maybe unjustified trust in them, don’t exploit that trust, that what companies do that starts becoming at great variance with consumer expectations, that those be outliers stop.

The Sears case I think is a wonderful example of that where they installed spyware into people’s computers, and this was actually disclosed in the fine print in a very lengthy privacy policy. So it was actually there, but it was not very salient. It was not very noticeable. So most people missed it, and the FTC said that it was not sufficiently disclosed and not conspicuous enough.

And I think that is great because what we
had is a practice that was very unexpected to
consumers that caught a lot off guard. So I think it
is very important that consumers can use sites and
engage in ecommerce and other commerce and know that
what they expect generally is going to be the case and
there are not going to be unpleasant surprises down
the road. And so I think it is very important that
the FTC police that, especially because we know from a
lot of studies that a very, very small percentage of
people actually read the privacy policies or privacy
notices, something like less than 1 percent.

So we really are in a world that consumers
come in with this baggage, these expectations, and I
think we have to play in that world and know that that
is how people are going to make decisions on how to
share their data, and there should be some protection
from that being exploited.

DR. COOPER: Howard, did you want to jump
in? One thing just to -- and maybe it will be
completely orthogonal to what you were going to say,
but maybe it will be related. It sounds, you know,
listening to David and Daniel -- and I do not know if
it is -- to what extent should we think about privacy
as sort of a right space framework or is it something
that needs to be balanced with, you know, other values
as well? Is it something that can be balanced or is it just a right? And I don’t know, it is something I was just thinking about as David and Daniel were talking.

So anyway, Howard, I will let you speak to that or whatever you want to --

DR. BEALES: Well, I did want to comment a little on the discussion that has gone on before, but first, I wanted to take you to task for listing the Nobel Prize winners for the economics of information without listing the guy who founded the field which was George Stigler, first and foremost. He was one of my advisors, too, so that --

(Laughter.)

DR. BEALES: But I will forgive you.

DR. COOPER: Okay.

DR. BEALES: The attraction to me of the consequences-based approach to thinking about consumer privacy, which is what we developed in the time that I was at the Commission, was that it makes explicit what ought to be there all the time, which is that particularly in the commercial context, this is a balancing issue. There are tremendous benefits that come from the ability to use information, even if it is an unexpected use of the information.
And we do not want to sacrifice those benefits because somebody did not think to include that in the list of things that might be done with information in the privacy policy, because it was not thought of at the time that the privacy policy was written. We did not know this was a possible use of the data.

Those kinds of benefits -- we have an enormous number of services that are built on exactly those kinds of secondary uses of information that was collected for a different purpose, that may or may not have fit with consumers’ expectations.

What we want to make sure of is that that information is not being used in ways that are harmful to consumers, that is doing damage to consumers. And that is where privacy regulation and privacy enforcement really ought to focus. If there is not a harm, it is not something that the FTC in particular should be worried about.

Now, I also have a reasonably broad concept of harm, perhaps not as broad as some. I certainly think that the kinds of subjective harms that fit within the traditional privacy torts are the kinds of harms that are actionable privacy harms. But I note that the tort standard in virtually all of the privacy
torts is highly offensive to a reasonable person. If
the intrusion or the putting somebody in a false light
is something that would be highly offensive to a
reasonable person, that is an essential element of the
tort, not just any intrusion, not just any false light
that might be held out. But including those kinds of
harms I think makes complete sense.

We have had two mentions of DesignerWare and
Aaron’s and there is a part of that case that I
completely agree with and that is the “turn on the
camera” part of the case. This is a part of it that I
have always found really troubling, and that is this
is a computer that when somebody stopped paying, you
could activate the software and the computer would
call home and tell the company that had rented the
computer to somebody who was no longer paying for it
where it was. That is really useful.

The complaint says, well, this is location
tracking and location tracking is bad, but the
complaint does not say why location tracking is bad
and especially when it is every two hours. And the
remedy that is in the complaint -- or in the consent
order is, well, if you disclose when you first turn
this on and track continuously, that will comply with
the order. So to fix tracking every two hours, we
track continuously. I do not get what harm we thought we were fixing there. And it is that harm that really needs to be the focus.

If we cannot articulate why we think this is a problem, we are not going to be able to adopt sensible and low-cost ways to control that problem. We have to think first about what is the harm we are trying to prevent.

DR. COOPER: Thanks, Howard.

So after hearing kind of a high-level view of what sort of values we should be concerned about when we are thinking about a privacy program or regulatory framework, maybe it is important now to take stock of actually where we are. So I wanted to turn to Daniel, who as I mentioned before has written a seminal textbook on this and lots of articles defining and thinking about what privacy is.

So, Daniel, could you just kind of help us characterize the current U.S. system of privacy and data security regulation in about five minutes maybe?

MR. SOLOVE: Sure. Well, at the high level, the bird’s-eye view, my sophisticated synopsis of it is it is a mess.

(Laughter.)

MR. SOLOVE: We have a sectoral approach
with laws that have arisen in various economic sectors over a very long span of time. Then you have common law torts that have arisen, the privacy torts, plus there is the forgotten breach of confidentiality tort that I would like to mention to you that does not require highly offensive. There are all sorts of other common law torts that could apply in these contexts, such as negligence, that are making a resurgence in data breach cases.

Then you have various state statutes in the states. You have dozens of federal laws, not as many recently, but certainly in the ‘70s, ‘80s, ‘90s, you had a real series of laws that were passed to deal with various privacy issues in various economic sectors. And then you have the FTC, kind of an overarching, the broadest jurisdiction of any federal agency regulating privacy that regulates most companies, except for some carve-outs.

And that is the U.S. approach and there are inconsistencies in the various laws. Some of them are a lot weaker than others. On the stronger side, you have HIPAA, which is very, very broad, has a broad reach. It follows the data through the chain of its custody. But you also have laws like FERPA that regulate schools that by and large are kind of, for
lack of a better characterization, a bit of a joke. They are not really enforceable; they lack a lot of the features that more recent privacy legislation has.

Contrast this to a number of other countries in the world, including, especially the E.U., they have a comprehensive privacy law baseline of protection. So they can articulate, here are the basic rules of the road that we follow. Here in the U.S., it is very hard to articulate, well, how is this particular data protected? We really cannot. It depends on, well, who holds it? If it is held by certain entities, then it is regulated by HHS, but it could also be regulated by the FTC and it depends on who enforces it and it depends on what the sectors are.

And one of the challenges with the sectoral approach is that the sectors change. So in the '70s and '80s, you know, what various types of companies are doing in the sectors makes sense then, but now, as we see, different companies are jumping into different areas. So when we build laws around, you know, sectors, they don’t stay fixed. And, now, there is a lot of overlap and companies saying, wow, we are regulated by five different agencies and five different bodies of law and we don’t know what to do,
there is so much. Plus, then all the different state
laws that are overlapping and it becomes a bit of a
nightmare.

I am not sure we can dial this back in the
United States. I am not sure we can kind of go and
say, hey, we are going to do the other approach, but I
think there is some sensible aspects to the other
approach that are quite efficient and, to some extent,
I think could be particularly business friendlier than
the U.S. sectoral approach, which a lot of industries
were happy with initially because they liked the idea
of a law tailored to them or they liked the idea of
the fact that the laws did not apply to them and they
fell through the crevices. But those crevices have
been largely plugged up by the FTC.

The other problem, too, with the U.S.
approach is that we get often no respect from the rest
of the world. We are kind of the Rodney Dangerfield
of privacy in the U.S., but I think we have some very
effective, some really good laws. I think the FTC has
done tremendously effective work. You know, we do
have a lot of protection. It is just that it is
inconsistent; it is hard to articulate. It is very
hard to explain to other countries, especially the
E.U., how the U.S. system works and how information is
protected here. It is so haphazard.

So I think the biggest challenge is what do we do going forward when we have so many laws that are locked into antiquated visions of the economy from 30 years ago and, you know, a role that has increasingly been ceded by the U.S. Congress ever since I think around 2000, where we really have not seen a tremendous amount of legislative activity on privacy. It really has tapered off. And we have really seen the states, especially California, and the E.U. take the lead.

And I think if you ask most large multinational companies what privacy law are they focusing on for their compliance efforts, GDPR, the new California law, hardly anyone will say anything about any other U.S. law. Maybe a little bit of HIPAA. FTC, I barely hear whispered these days, although I think a few years ago the FTC was spoken about a little bit more. But increasingly what we are seeing I think is the companies and these are U.S. companies not really looking to the law here as to what they are doing and how they are building their privacy programs and practices.

So that is where we are. And the big question is what should we do in the U.S.? What is
1 the next step? Do we kind of say, hey, we will let
2 the -- you know, be regulated by Europe and California
3 or will we have meaningful regulation at the federal
4 level that reflects the balances and approaches that
5 the U.S. would like to have.
6 DR. COOPER: Well, thanks, Daniel.
7 I would like to invite anyone to react to
8 that and also kind of throw out there it seems as we
9 think about the landscape of the U.S. privacy regime,
10 it seems to be a mixture of ex ante regulation with
11 notice and choice in some areas, HIPAA and COPPA
12 maybe, but then we also see enforcement, you know,
13 private and FTC.
14 What are the pros and cons of those
15 approaches and what might be -- you know, you think
16 about whether there should be a mixture, if we should
17 hew to one or another or if it makes sense to kind of
18 mix it up in some ways the way that we have here in
19 the U.S. So I would throw that out to anyone.
20 MR. VLADENCK: Let me comment on that briefly
21 because until at least a few years ago, the difference
22 between the E.U. and the United States was we did a
23 lot of enforcement, but we had this crazy patchwork of
24 laws. On the other hand, in the E.U., even before the
25 GDPR, they had a general regulation which was much
more comprehensive than any of the U.S. privacy law, but there was almost no enforcement. And some scholars have done a lot of work, looking at sort of privacy on the ground, both in the United States and in the E.U., and they found that the privacy commitments in the E.U. were met only to the extent that there was a real enforcement or culture of compliance, which left out large swaths of the E.U.

And so I think that somewhere in the middle is the desired outcome, but strict rules without enforcement, you know, at least according to the studies that have been done did not work all that well in the E.U., and I think that was one of the major driving forces for enacting the GDPR and to basically base the new system on commitments of compliance and enforcement.

And it will be interesting to see the extent to which the new GDPR is enforced by the data protection authorities in the E.U., who are not used to doing FTC-like enforcement cases.

DR. COOPER: Anyone else like to jump in on the ex ante versus ex post question or anything --

COMMISSIONER OHLHAUSEN: I was going to say I agree that regulation, you know -- if there is clear regulation that says -- you know, like the Children’s
Online Privacy Protection Act. Congress drew the lines there and the FTC implements it and enforces it. One of the things that I think has been a real strength of the FTC’s approach has been its case-by-case enforcement, maybe a little bit less predictable in some ways, but it trades that for great flexibility. So a focus on harm in case-by-case enforcement reduces the need for you to predict the future to design some overarching regulation that foresees all innovation.

Howard mentioned this, and I think we all would agree, consumers have gotten enormous benefits from a lot of these technologies and consumers have gotten a lot of free content and they have gotten a lot of information at their fingertips, as you mentioned. And so that does not mean anything goes, but I think we need to be careful about coming up with a system that is too regulatory, because it cannot predict what the new innovation is going to be and perhaps it is going to prevent it from happening.

DR. COOPER: Okay.

DR. BEALES: Just to pick up a little on the ex ante versus ex post problem, I think part of the problem with the ex ante regulation is that the approaches we have now and particularly the approaches
that are embodied in the GDPR and in the California statute are really based on a premise that will not work, that people are going to read privacy policies and pay attention to these notices about what is going to be done with the information and make choices based on that.

And Dan says -- and I think he is right -- nobody reads privacy policies. It is probably a good thing because there is a study out of Carnegie Mellon that said if people actually did read their online privacy policies, the opportunity cost to the U.S. economy would be $787 billion. It is just out of all proportions to what might be at stake in commercial privacy decisions. And with ex ante approach, that difficult, if you will -- the focus ex post on where have things gone wrong that need to be fixed and what can we do to keep them from happening again seems like a much more sensible way to approach the problems.

COMMISSIONER OHLHAUSEN: Howard, I just wanted to weigh in a little bit on your point about people not reading privacy policies. I agree probably the average consumer does not, but we have academics in the U.S. -- I bet Daniel reads privacy policies, I bet David reads privacy policies, and academics and consumer groups, consumer organizations and
competitors.

DR. COOPER: I do not read them.

COMMISSIONER OHLHAUSEN: Right, so James does not. No, I am just kidding.

DR. COOPER: Well, you said academics. I just want to make sure that you --

COMMISSIONER OHLHAUSEN: Academics other than James Cooper.

(Laughter.)

COMMISSIONER OHLHAUSEN: But I think there are mechanisms for if there is a problematic term in a privacy policy for it to get noticed and surfaced. And that is one of the things that we have seen I think with social media, that when something is discovered that people do not like, that news gets out there pretty quickly.

DR. BEALES: If that is the goal, then that points to a very different kind of a privacy policy because you do not want something that is understandable to consumers; you want something that is understandable to geeks and competitors, who can figure out whether there is something wrong going on here. That is sort of not where we are headed. It is not where the Europeans are headed. It is not where California is headed. We want simple privacy policies
that anyone can understand, that tell you nothing, and mostly are not read. I mean, no doubt some people read them.

MR. SOLOVE: A while ago, I wrote a piece about privacy self-management, which is this idea that people manage their own privacy by reading these policies and making choices. I think this is a flawed approach, not just because people do not read privacy policies. And, also, I think the point that there is this tension, privacy policies are useful to regulators and advocates and academics and others who can read them carefully and you want to give a lot of information, but the average consumer really cannot get all of that. So there is a tension. You almost need two different things, which is what Paul Schwartz and I have proposed in our ALI Project, which is a transparency statement for the regulators and then something simpler for the consumers.

But as a consumer, reading the privacy policies is relatively meaningless. I do not read them because it is too many with the amount of entities I do business with and sites I visit, you know, hundreds, thousands. I do not have time. And then the choices, do I share this piece of information on Facebook? I don’t know.
The implications for privacy depend on how that information is combined and aggregated with other information over time and how that information might line up and what someone might do with something and what algorithm someone might create five years from now and a whole litany of things I cannot figure out. So I really cannot make the judgment as a privacy expert on exactly what the complications and costs and benefits to me, especially the costs over time, are going to be for me to release a certain piece of data.

So it is very, very difficult. And, now, multiply that by 1,000. And I have to make that decision all the time. Just really, really hard to do for the consumer. So I am just not sure that that approach -- you know, it is great if there is like one company that you actually do business with, like I am only on Facebook. But it is not. I am on all these sites.

Like the professors who -- I give an amount of homework every night and I think, hey, it is reasonable for my students to read 30 pages in a night, but what if they have 10 professors and each assign 30 pages? And that is what the companies are doing. Every company thinks, hey, they can pay attention, we have this great mechanism. Yeah,
multiply it. It does not scale. That is the problem. And the consumer, if you say, hey, we protect your data with reasonable data security, well, what is that? As a consumer, how do I assess your security? How do I know how prepared your employees are to not be phished? And I cannot -- how do I know what kind of encryption you are going to use and all these other things?

I cannot really make an informed assessment, which is why we need an agency like the FTC to be looking out for people. Just like when I would travel abroad and the taxi fares were -- they did not have a meter and I did not know what the right fare was and they would just say like it is X whatever. I had to trust them or make some -- I did not know. It is nice to know that someone is looking out for me and there is a meter and someone has thought of what the right fare is going to be and I do not have to worry about someone cheating me or I can pick up a jug of milk and know that I can drink it and I am not going to be poisoned. I do not have to do research. Imagine if you did not have the food safety and you actually have to go online and research like the safety conditions at each farm to figure out do you buy food from there? I would just like to know
like I pick up a product at the supermarket, it is
safe, and I think we want the same thing for privacy.

MR. VLADENK: It is amazing how when
whenever you use the phrase “privacy policy,”
everybody launches into a diatribe. So I am going to
take a minute and launch into my own.

One is they are not privacy policies. The
original sin was calling them something that they are
not. None of them really deal with privacy. They
deal with data use. And part of the problem is they
have been misnamed.

The other problem, of course, and this gets
back to the question that James started with, the
difference between ex ante regulation and something
else. If you have a regulatory regime that is clear,
so you know that everything you do on the internet is
safe or at least you have that promise, even if it is
not enforceable, then the privacy policy or the data
use statement becomes less important.

And part of the problem that we have -- and
the FTC has done a lot of work on simplified notice
and Dan and the ALI have done a lot of work on trying
to figure out a better system for this. But these are
really notice systems, and they need to be simplified.
Many of them are written by lawyers so they are bound
to be incomprehensible and they are often designed to be incomprehensible.

So this is an issue that plagues us and I do not think we have collectively figured out a way to escape it.

DR. BEALES: I think actually Mick Jagger had the answer to what is going to happen here. In 1964, the technology was a little different, but he said, a man comes on the radio -- like I said, the technology was a little different -- telling me more and more about some useless information, supposed to fire my imagination. What happens? “I can’t get no satisfaction.”

MR. VLADECK: There we go.

DR. COOPER: All right. So, David, with that segue -- thank you, Howard.

(Laughter.)

DR. COOPER: Now, that we have kind of set the stage for where we are in the U.S., what do you see as any of the problems? Because, again, the headline of this panel is supposed to think about, you know, kind of rethinking the current privacy data security regime. What are some of the problems -- of any of the current status quo, are there any harms that you do not think are being addressed? Is there
inefficient enforcement, either over-deterrence, under-deterrence?

So what do you think, David?

MR. VLADECK: So let me use a few examples because time does not permit me to go through all the concerns that I have. But one is I do not think we have effective tools to really understand what is going on with big data, let alone to regulate it sensibly. So we all know that data collection is now ubiquitous. We bring it into our own homes through always-on devices and sensors or the internet of things. We know that this data is being collected, but our laws really do not have any restraint on the sale or renting of this data.

We know it moves. We know it has substantial economic value, but we do not have any real information on the velocity or volume of this kind of data aggregation. So that presents risks.

Paul Ohm, one of my colleagues both at the FTC and here, wrote an article ten years ago in which he sort of cast in dystopian light what he called “the database of ruin.” Well, we do not know yet whether there are these kinds of enormous database, but there is nothing in U.S. law that really restrains that development. And these kinds of databases pose risks
to consumers. There is the risk of data breach. After all, these would be honeypots. They would be a magnet for identity thieves. And we know identity theft is still rampant.

So one question that the FTC I think is going to have to grapple with is sort of where is this data? What is it being used for? How is it being transmitted, to whom, and for what purpose? So that is one issue that I think the Commission is going to have to grapple with going forward.

Second, the rapid initiation of algorithmic decision-making in the marketplace. Now, I said this this morning, I am no fan of human decision-making.

(Laughter.)

MR. VLADECK: We generally do not do such a great job, and machines may help. But for regulators, these kinds of decisions are very difficult to oversee. They are not transparent. Machine-learning algorithms are impossible to interrogate. You cannot put them under oath. It is hard to root out disparate treatment based on factors that are impermissible, age, gender, race, things like that. Nor is there necessarily due process at the end of the decision-making chain.

So I know the agency has already done a fair
amount of work on this. But this is an issue that I think demands greater attention because I do think it poses enormous risks to those who come out on the bottom in terms of these kinds of decision-making.

In terms of enforcement, my concerns are not really with over-enforcement, because the agency resources are too scarce for that. Indeed, when I was the director of the Bureau of Consumer Protection -- and I don’t know whether Howard had the same concern -- but I spent a lot of my time doing triage, deciding which cases to bring and which cases not to bring, even though many of those cases in the latter category were meritorious and we should have brought them, if we could have. So I do not think that is the problem. I do think there are enforcement challenges. So one is how do you enforce against an industry, like the mobile app industry, which is a highly diffuse, diverse industry, thousands and thousands of app developers, many of whom either do not really know what the law requires or just don’t really care. So the New York Times did a story yesterday about COPPA violations, violations of the Children Online Privacy Protection Act, by app developers that were tracking kids 12 and under without explicit parental permission.
Sure, the FTC could bring 20 or 30 enforcement actions against this kind of industry. But it is not at all clear to me that you get any of the kind of deterrent value that you really need. So one question is, with respect to these kind of diffuse industries, how do you make them comply with the law? That is one problem.

Another is we have to figure out to what extent machine-learning decision-making tools are staying within the statutory guidelines. That is an enforcement problem. And last, we have a lot of companies under order, and order violations are hard for the agency to detect and to deal with simply because of the high volume of companies under order. That is a serious enforcement matter.

I mean, for a company to violate an FTC order undermines the ability of the agency to do its work; it undermines the deterrent value of consent decrees or enforcement cases. And I think that the new management at the FTC is going to have to grapple with that.

There are many others, but I will stop there.

DR. COOPER: Would anyone else like to weigh in?
COMMISSIONER OHLHAUSEN: One thing, building on what David said, I agree that one of the challenges for the approach that we have -- and when I talked about privacy policies, it was not certainly to say privacy policies, you know, are it and take care of everything. It is just that I do not think they are as totally useless as some other people seem to think they are.

But the other problem is these kinds of harms that we -- you know, you may have a lot of little bits of data that were not sensitive, that were not even personally identifiable when they were collected, but through these new tools they can be assembled in a more complete mosaic and identified to a certain person.

And then I think the question there is, is there a harm, is there a risk there? And that is where I think we need to start thinking how do we address that? Because a lot of those uses may be great. They may be very beneficial. We do not want to stop those, but for the harmful ones. And if we look at something like going back to the pre-internet days of the Fair Credit Reporting Act, it was trying to get at those kinds of issues to allow some kind of balancing and use of this data, but to allow consumers
to know if it was being used in a way that
disadvantaged them in connection with an important
decision, like employment or insurance or some other
ones, lending, and then gave them insight into what it
was and the right of correction.

So I think that is where we need to start
thinking about kind of a risk-based approach, because
I do not think we can, necessarily, foresee all the
uses. I am a little concerned about the data use
specification requirement because, as Howard said,
there may be great uses down the road that consumers
would like. But they still need to be protected from
some of these new abilities to use these little bits
of data in a new way.

DR. BEALES: I don’t know why the more
complete mosaic is itself a problem. The one part of
that that clearly is a problem is if the Government
can get that. But there is another tool to control
that problem.

COMMISSIONER OHLHAUSEN: Right.

DR. BEALES: And it is the one we ought to
use and not worry about the possibility that this
might be put together.

I want to say two things about -- you know,
I think big data is a really interesting question and
there are certainly potential costs there. But there has also been big benefits. I mean, that is where our fraud control tools come from is data aggregations, often data that was collected for a different purpose, that is put together in an algorithm that predicts the likelihood that a particular person is really who they say they are.

If it were not for those tools, there would be a lot more identity theft than there is, which is way too much. But that is a big data effect. You cannot do that with little pieces of data one at a time. You have to aggregate the data in order to get a more comprehensive picture.

The other thing I wanted to say is about algorithms, which raise some potentially interesting questions. But I think the algorithms that ought to be of concern are the ones where the user of the algorithm does not face the costs of mistakes. Because an algorithm is just basically a way to classify you are a good risk, you are a bad risk; you are a good prospect, you are a bad prospect.

There is a really interesting example of Reuters, which wants to get scoops on international news, and it does that in part by following tweets. But there is a lot of bogus tweets. And so they built
an algorithm to figure out whether this was likely a
real story that they should follow up on or a bunch of
fake tweets that they should ignore.

They face the costs of both mistakes. They
are going to miss a story if they misclassify these
tweets as false tweets and ignore it. They are going
to waste resources if they misclassify these tweets as
true and pursue it and they are false. So they know
what the tradeoff is. They know what the costs are of
both kinds of mistakes. There is no reason to think
they make the wrong tradeoff.

And I think that is true of a lot of
marketing applications, where if I screen out “bad
prospects,” I am turning away business. I do not want
to do that by mistake. I want to turn it away if it
is bad business, but I do not want to turn it away if
it really is good business. So there are some fairly
strong incentives within the system to make sure the
algorithm works well.

Where you do not have those incentives is
where somebody using the algorithm only pays part of
the costs and the rest of the costs are shifted to
somebody else.

MR. SOLOVE: With the algorithms, I think
there is a lot of concerns because suppose --
especially a predictive algorithm, suppose the hotel
chains get together and create an algorithm for
determining when a particular hotel guest is going to
damage the hotel room or treat the hotel room badly or
do misconduct in a hotel room. And they basically
come up with the algorithm and it comes up and says
that you are one of those people. And starts --

MR. VLADECK: Quotes Mick Jagger.

MR. SOLOVE: -- you know, you are -- yeah,
along with Mick Jagger, too.

(Laughter.)

MR. SOLOVE: And you start to not be able to
rent hotel rooms or suddenly you are charged more.
And what are your rights there? Because when you are
targeted in a predictive sense, it is like, well, hey,
I never did any damage. Well, we are not saying you
did, the algorithm is just saying that we think there
is a high probability that you might. So there is
nothing wrong with the algorithm. It is just taking
into account factors and, hey, it might actually be
true, but you have not done it.

Should people have rights to say just
because it says I am likely to, how do I disprove
that?

MR. VLADECK: Or how do you even know it?
MR. SOLOVE: Exactly. How do you know it?
How do you disprove it? How do you argue with a
prediction. So if the FBI says, our algorithm says
you are going to commit terrorism; we will not let you
on the plane; you will say, well, how do I prove it?
It’s like, well, live your life and die, and then if
you have not committed terrorism, then we will take
you off the list because we know you did not do it.

(Laughter.)

MR. SOLOVE: The algorithm was wrong. There
has to be something to say who regulates, what are the
concerns with an incorrect thing? How much
transparency do we have? How can it be used? What
about people’s rights to challenge it and say, hey,
the prediction is wrong, either inaccurate -- I mean,
how do we -- but to just kind of leave it to industry
to do whatever they want without looking to the harms
that consumers might suffer from this I think is
something that we definitely do not want to do. That
is why I think it is very important that we look into
this and have good regulation on it.

MR. VLADECK: Let me push back a little on
Howard’s point. It may be that Reuters bears the
risks on both sides of this, but in consumer finance
or creditworthiness or anything else, the consumer who
is misclassified by the algorithm bears the risk, may not be informed, and there are no shortage of stories that have been publicly discussed where people have been disadvantaged based on correlations, not on their actual -- so, you know, American Express had a serious problem because it was reducing the credit limits for black customers who went to certain kinds of box stores that were deemed to be indicative of a credit risk. And when that became public, their answer was, we screwed up, but we relied, essentially, on an algorithm.

So, again, I am not trying to suggest that machine learning cannot help us make better decisions, but there needs to be both some transparency and some due process here, particularly where it is not the company that bears both sides of the risks.

DR. BEALES: Well, I think in the financial transaction, it often is the company that bears both sides of the risk because they are turning away business that would be profitable business, and there is an incentive to not do that. We can argue whether it is the perfect incentive or not.

But I think the other thing we have to recognize is human decision makers have all those same biases and they are every bit as hard to tease out.
They are probably less transparent than algorithms.

And know when I was at the FTC in the 1980s, in the early 1980s, and we were bringing a lot of equal credit opportunity cases, every time we looked at a judgment creditor, a guy who sits down and looks at the applicant across the table and says, you look honest, I will loan you money, there was discrimination. It varied whether it was women or race or what kind of discrimination, but there was discrimination.

Credit scoring guys did not have that problem. Credit scoring reduced the discrimination problems that were inherent in judgmental creditors. And that is the potential gain from algorithmic decisions. More data is usually better because it can challenge your preconceptions about what is going on and what is the right answer here.

MR. SOLOVE: Sometimes. I mean, I think that is true sometimes, but sometimes algorithms are no better than the humans that design them and there are hidden biases that can crop up in algorithms, not just the people who design them, in fact, the data being inputted into them. If you input data that is infected with human biases into algorithms, the algorithm spits out data that also is infected as
well. So there are a lot of concerns all around. Absolutely, algorithms can improve human judgment. Absolutely, human judgment can be problematic. But I do think that the cost of, let’s say, for a business just saying, hey, I do not want this business, I am going to turn a consumer away is not enough -- it is not the same level of harm to the consumer. Because a business can say on the aggregate, we just think certain types of consumers are not very profitable for us, so who cares if we lose a little bit of business; we ultimately gain. For those consumers who cannot have access to credit, who cannot get a loan, it is a much, much bigger deal and a much, much bigger cost. So I actually do not think the market would always work itself out because I think that businesses might make a good economic decision, hey, if we do this, yeah, we lose a little business, but we also lose some risk. But that does not always look the same way on the consumer side.

DR. COOPER: Maureen, you wanted to jump in?

COMMISSIONER OHLHAUSEN: Yeah, I wanted to weigh in on this. I do think that there is the mechanism of the market where if one company has a poorly designed algorithm and it is leaving good
business on the table, someone else has an incentive
to try to capture that.

And that is one of the things I think we are
seeing in the lending area. There are finer
distinctions being made with better targeting tools
that allow lending to occur at better rates than
really going by the rough calculation of a credit
score that, you know, you kind of fall on this side of
the line or that side of the line.

So I want to certainly take into account the
fact that there are competitive pressures to have a
better algorithm to expand your business.

DR. COOPER: Just to kind of follow, it
seems a lot of this discussion is about the
classifications, obviously, that come out of
algorithms. Is Section 5 the right way to address
that? We think about Section 5. At least three out
of the four of you here on the table have been in the
position of an enforcer.

Leaving aside whatever statutory or
regulatory authority Congress has given the FTC to
enforce discriminatory, is Section 5 -- should it be
addressed -- say an algorithm unfairly classifies
someone as getting subprime loans, for instance, is
that stretching Section 5 beyond where you think it
should go or is that the right place for Section 5 to be or instead should it be Congress making cuts of what is unfair discrimination?

    DR. BEALES: It is beyond where I think Section 5 should go. Obviously, the FTC has a role in places where Congress has given it a role, like equal credit opportunities, where it enforces, and it is reasonable and appropriate for it to do that. That is what it should do.

    But to look for discrimination, even of the same sort, in other places is a whole different set of considerations than what the Commission knows about and has expertise in. One of the proposals that was kicking around at the time of the unfairness policy statement was, well, maybe we should use Section 5 to say boards of directors should be more representative. Elizabeth Warren, call your office. And that was the kind of thing that the Commission and Congress were trying to get away from.

    And that is why those subjective kinds of values, I think, is something that the unfairness statement says in general we cannot do that. And even if it is something we might do, it is probably more appropriate for a different agency to do it.

    DR. COOPER: David?
MR. VLADECK: I have a slightly different answer. I agree with Howard that this kind of issue would arise mostly under ECOA or FCRA or some of the other statutes the agency enforces. But I think to the extent that there is some intentionality here, then it would fit under the unfairness doctrine. That is, if there was a reason for the designers or the users of the algorithm to know that it somehow, either inadvertently or because of the training data, systematically excluded X people, based on gender or one of the suspect classes, I think the agency would have an unfairness case. But I think the burden on the agency in a case like that would be very high.

DR. COOPER: I imagine you probably do not want to weigh in on that.

COMMISSIONER OHLHAUSEN: It has been covered.

DR. COOPER: Yes, it has been covered adequately.

While we are on this about -- and you had raised something, David. I think it is interesting earlier on, in your earlier response, thinking about some of the problems, do you think that -- and really both David and Howard’s people sat there and looked at the complaint recommendations and thought about what
relief you should get. Do you think the FTC, in its 13(b) equitable powers, do you think it is hamstrung at all in its ability to get adequate relief in privacy cases or do you think there should be -- I realize the Commission, I think on a bipartisan basis, has been on record as saying that in data security cases civil penalty authority would be good. I could be wrong about that. I think that is right.

COMMISSIONER OHLHAUSEN: That is correct.

DR. COOPER: But leaving aside that, do you think in privacy enforcement, do you think there needs to be a bigger stick than we have now? In many cases when these are apps that are free and collect data, it may be very difficult to get equitable relief under 13(b).

MR. VLADECK: I do think that -- in my own view, and I do not think this is the Commission’s view, is that there ought to be original fining authority under 13(b). And take Ashley Madison. There is no way to do meaningful redress there. Injunctive relief is not going to give much solace to people whose marriages ended or whose spouse committed suicide. So I do wonder about the ability of the agency to forge any kind of effective remedy in those cases.
I also think that if you look back at some of the cases that we brought early on during the Leibowitz era, I think that a civil penalty, for example, against Google or Facebook initially would have had had a deterrent value. Facebook is currently under investigation again. Google, it took only two years before it violated the consent decree.

I do think there ought to be initial fining authority under 13(b). I think the Commission would have to use it carefully, particularly where other remedies were just simply inadequate. But I do think 13(b) cases ought to be -- I think civil penalties ought to be available in those cases.

DR. COOPER: Okay. Howard, do you want to weigh in on that?

DR. BEALES: Sure. No, I do not like the idea of civil penalties, especially in an area like privacy. I like the original scheme of the FTC Act that was essentially the one bite at the apple, because the precise meaning of "unfair and deceptive" is not that clear. And the way the Act was set up, the Commission could get an order, and if you violated the order, you were subject to civil penalties for that.

But civil penalties sort of presume a really
clear standard I think of what is a violation and what is not. And that is not so clear in a lot of the privacy areas. I think it is a lot clearer in data security. I do think civil penalties there make a lot more sense. But I think in a lot of privacy and some other areas, I think monetary relief is not appropriate.

DR. COOPER: All right. So, Howard, while I have you, we are now turning to kind of how we are seeing a shift. We looked at some changes in the landscape of privacy regulation around the world and throughout the United States, you know, we see in the GDPR, California, the FCC Privacy Rule that is now defunct. They all seem to be taking more of a FIPS-based approach in notice and consent, deletion rights, correction rights, we see in the GDPR and California.

On the other hand, we have the FTC which has been really based on demonstrating likely consumer harms or deception. This tees off a little bit -- we have discussed a little of this in the ex ante versus ex post discussion. But do you have thoughts on why you think we have seen a trend towards this, at least in recent evolution of these newer privacy schemes, away from harms-based and more toward a consent-based?
DR. BEALES: Well, I think two things. One is -- and I think this remains true -- there is a remarkable unwillingness to articulate what are the harms we are worried about or inability to articulate what are the harms we are worried about. And if you cannot do that, then it is hard to do a harm-based approach, especially as an across-the-board regulation that applies to absolutely everything. You have to think through the harms that you are trying to prevent first. And there has been, to me, a remarkable unwillingness to do that.

Second, I think the FTC in the last few years has -- it certainly has not abandoned worrying about consequences, but it has also moved towards more what I would call FIPS-plus in its enforcement action. I mean, the Vizio case is a really good example. There is just no way to tell the story about that case that does not come down to notice and choice. People were surprised to learn -- did it violate their expectations to learn that their internet-connected TV was connected to the internet? Really?

(Laughter.)

DR. BEALES: And did they think that it was making recommendations for the next thing they should watch without knowing what they had been watching in
the past? Really?

COMMISSIONER OHLHAUSEN: It did not make recommendations, Howard. It said that is what it was collecting the data for.

DR. COOPER: But it did not make recommendations.

COMMISSIONER OHLHAUSEN: But it did not make recommendations.

DR. BEALES: Well, that is not what the -- the complaint does not charge the failure to make recommendations.

COMMISSIONER OHLHAUSEN: No, but it charges that it was collecting the data and sharing it --

DR. BEALES: For ratings purposes. This was a completely innocuous use. There is no harm there at all, no harm there at all, other than people did not know. It violated their expectation.

COMMISSIONER OHLHAUSEN: But it was also --

DR. BEALES: But why is that bad?

COMMISSIONER OHLHAUSEN: It was also collecting data, like even if you were not watching something, streaming. If you were watching a DVD or something, it was collecting and reporting back, this television watched this DVD. So that is not a ratings purpose.
DR. BEALES: Well, again, what is -- I mean, it is a ratings purpose because it is how are people spending their time with the set, which is what you -- I mean, it is what the television rating services are busy measuring is, how much time is the set on? That is what the boxtop is recording.

COMMISSIONER OHLHAUSEN: But that is not what was being collected.

DR. BEALES: But this is complementary to that data. It would help you --

MR. VLADECK: Well, in addition to that data.

DR. BEALES: Well, it --

MR. VLADECK: It is anything that --

DR. BEALES: This is competition for Nielsen, all right, that has a box that measures what the TV is on and what channel is it tuned to and that is about it. It is additional information about whether people are actually watching a TV show on the channel that it is tuned to or watching something else. I mean, there is -- you know, you can say it was unexpected. But I do not know why it is bad.

MR. SOLOVE: Well, I guess there is a lot of dispute about harm. This is one of the problems when
it comes to harm is that, you know, you say, well, harm is never articulated. Well, maybe the harms that you would think of what harm is is not articulated. There are harms in some of these cases that do not necessarily mean that someone is out financially or their reputation is ruined.

Part of it just is consumer trust that you buy a product, you think something is going to be used in a certain way, and suddenly, you discover, well, whoa, all this other stuff is going on. And that does not just hurt the consumers; it also hurts other industry. People start to not trust it. Well, gee, I do not want to buy the nest things because they are going to do something with my data. I do not want to buy a Google Home. I do not want to go and use these new technologies because I cannot trust what they are going to do. Nothing they say -- and it could be a different company.

But if consumers start losing faith that, you know, what is told to them, what they expect is not what they expect, all these products, they are going to start to say, why do I want to start bringing this stuff into my home when it seems like everybody -- the common story is they are doing something else with it that I did not expect? And
that hurts other companies.

It undermines the companies that are doing the right thing, and are saying what they are doing with it and then doing that. And then if they want to use it for something else, tell people. Try to get their consent.

MR. VLADECK: This is a Bob Bork problem. This is why we have the Video Privacy Protection Act, because someone went to -- you know, they used to have stores where you could rent videos -- and got a list of what -- and everyone was outraged because who knows whether he was sitting there at night watching Disney shows or porn?

DR. BEALES: But Vizio says -- to me, the Vizio case seems to say the store cannot keep the record.

MR. VLADECK: No.

DR. BEALES: And that seems crazy. They are not publishing this.

MR. VLADECK: It is a TV set. It is not your content provider. It is not your content provider. It is a TV set. It is like a radio. It is not a content provider. It is -- and what Vizio is doing is keeping an account of what you watch and selling it with no restraint on selling it and that is
why --

DR. BEALES: They are selling it anonymized.

MR. VLADECK: Well, okay.

DR. BEALES: And aggregated.

MR. VLADECK: But that is why we have a Video Privacy Protection Act because Congress --

DR. BEALES: No. There is nothing in the Video Privacy Protection Act that would keep the store from reporting the aggregate rentals by title.

MR. VLADECK: That is true. That is true.

DR. BEALES: And that is what Vizio wanted to do with this data, was stuff by title. I just want to say if we think about the problem the way Daniel just characterized it, then I think it is a problem that has no solution. I mean, there is an interesting article in the Wall Street Journal today that I didn’t read closely about 5(G) and why it is important to be first, that predicted, among other things, that we are going to have internet-connected tennis shoes.

(Laughter.)

DR. BEALES: Now, imagine having to read the privacy policy for your shoes and your light bulb and everything else. There are going to be things that happen in this new world that consumers will not know about, right? Their cars will do things now that they
do not understand how it happens or that it happens.

If the goal is for consumers to understand, at a technical level, what is going on and how all information is being used, we are not going to get there, guys. Let’s think about what is second best.

MR. VLADENCK: Well, I think the consumer -- I totally agree with that point. Consumers really are not going to understand the technical thing. That is why I think the FTC plays a great role here as a backstop to say, look, someone’s got your back. If the uses are going to start to get so far afield, so unexpected, we are going to stop that, we are going to keep that in check.

And I think it should not be like, okay, wow, you are going to be totally ruined, that should not be the standard, or else then I think it should just be -- obviously, if there is a small variation in use and it is very innocuous, it is not a big deal, I do not think we should go after trivial things. But I think significant variances in use are not totally trivial.

And it is not like it is impossible -- and you can also look at the circumstances. How hard would it have been just to try to shape expectations a bit better about what this product is going to do?
Companies should have some kind of an obligation not to just hide the ball and secretly do things, not saying that it has to be in a fine print of a privacy policy.

But, you know, the more people that understand a little bit about like, you know, okay, what are these new products doing and what are the consequences, there is an education that needs to happen as we make these changes, and it is not happening because there is no incentive to do it.

It is like, great, I can get away with just doing it on the sly, and no one is going to come after me.

DR. BEALES: I think the important backstop, though, is not that there is something -- that I know there is nothing surprising happening with my data. Because, I am sorry, whatever your data is, there is something that would surprise you that is happening with it, almost for sure. And even if you are quite sophisticated about what is being done with information and how it is being used, that is probably true.

The question should be, is there something that is being done with that data that is creating a problem? But the mere fact that I did not know it was there is not the problem.
DR. COOPER: Well, now that Daniel and Howard agree on the role of consumer expectations in privacy, it is great that we solved that problem.

(Laughter.)

DR. COOPER: I want to make sure we have time for some of the questions we got. But I want to turn back to David and -- in my introductory remarks, I kind of posited that weird inflection point that there is something out there that seems to at least have a lot of people talking or suggesting that we need to rethink privacy here in the U.S., maybe moving us closer to the E.U. We see this in California.

So to David, do you think that the pressure for national or international conformity is going to drive federal privacy law closer to these other models whether we like it or not?

MR. VLADIECK: Well, first of all, I think that the enactment of the California statute and sort of the slow implementation of it, deliberately slow implementation, has created an interest in many other states to see if they could replicate what California has done. And so I do not think that Congress is going to immediately race to enact federal privacy legislation.

But many of the most important statutes that
we have, the environmental protection laws, the occupational safety and health laws, these were all enacted basically in response to an emergence of state law. So my guess is that unless the business interests that are unhappy with the California law succeed in either scuttling it back into the California legislature or attacking it successfully in court, you will see other states moving to adopt a regime based on the California statute, which is to some extent based on the GDPR.

And so the other force that is very much at work -- and the privacy lawyers in this, either here or watching this on the web, may know this because they have spent the last six months advising clients nonstop on compliance with the GDPR. So I do think it is going to have an influence on the United States. I think that is problematic in and of itself.

I think there are many laudable goals in the GDPR. I think for the United States to adopt that kind of approach would be very difficult. We are not based on a code system of laws. And the GDPR reads a little like the Napoleonic codes updated a little.

(Laughter.)

MR. VLADENSKY: So I think there is some friction in the joints. But I do think --
particularly, California has 37 million people. It is
the fifth largest economy in the world. It is the
locus for much of the development of the tech
community. And I think it is going to be highly
influential. And I think the FTC has to sort of be
very conscious about what is going to take place as a
result. And I do think that Congress has basically
made itself irrelevant in this debate and that may be
a good thing.

(Laughter.)

DR. COOPER: Howard or Daniel or Maureen?

DR. BEALES: I agree with that. I would
point to a slightly different example of what I
actually think is probably the most likely outcome.
California is big enough to sort of drive things
substantively, but as it turns out, so is Vermont.
Vermont passed a law requiring labeling of anything
that had genetically modified organisms. That
provoked industry support for a preemptive federal law
that says you have to label if it is genetically
modified ingredients, but you can label by a QR code
that people can scan and go to a website to figure out
whether it is genetically modified or not.

There will be pressure for preemptive
federal legislation. What that federal legislation
MR. SOLOVE: In the early days of breach notification, I remember I testified before Congress right after the ChoicePoint breach -- this was 2005 -- and there was interest, very strong interest in Congress, look at all these states that are starting to pass breach notification and industry was all behind it. We have to comply with all these different standards and this is going to be very complicated and expensive and we really need some federal preemptive law. There were even a couple of bills kicking around. Nothing happened.

So I have very little faith that this Congress really can pass a law, let alone tie its shoes. So I think that it really -- I am not expecting -- even though I think that some of these laws could benefit consumers and benefit industry to have some in these areas, I just do not think it is likely. So I think Congress just will not have the role, unless it somehow gets its act together, really will not.

I mean, the most significant privacy legal change that was passed was passed as part of Obamacare. It was the High Tech Act’s updating of
HIPAA and passing the notification rule, and that is really the big accomplishment for Congress since 2000 really. Not much has gone on. I do not hold out much hope. So I think it is going to be what it is. And I think there are some problems with that approach, when we are going to have a lot of different varying state legislation on privacy. Breach notification is at least something that is more focused on one thing and you have variances. All sorts of different laws, like California’s, with different variations is really going to be a big nightmare for industry to comply with. And I do not necessarily think that is a good thing.

DR. COOPER: Maureen, did --

DR. BEALES: I will say when I started at the FTC in 2001, everybody said internet legislation, privacy legislation is going to pass right away, and you guys better get behind it. But it has been a while.

MR. SOLOVE: Well, we said that at the beginning of the Obama Administration, too.

(Laughter.)

DR. COOPER: Maureen?

COMMISSIONER OHLHAUSEN: Well, I was just going to point out that Congress and FTC are not the
only actors in this drama, or the states. So NTIA and NIST, Department of Commerce, and the White House are all considering paths forward. Do we look at some sort of approach that would allow more of a uniform privacy framework to be put in place? So I would encourage people to pay attention to that process as well.

DR. COOPER: That will be interesting. I just got a card that -- I was going to wait for the audience. But it says, point of fact, HR6743, federal data breach is going to the full house and it was just voted out of committee today. So breaking news here.

(Laughter.)

DR. COOPER: So I am guessing it was prompted by this panel.

(Laughter.)

DR. COOPER: Time to take immediate action, immediate action.

So we are talking here about the pressure, the external pressure on the U.S. One thing that we have here in the U.S. is the First Amendment that seems to push back against privacy regulations.

I wanted to, Daniel, turn to you. And I know you have written and thought about this, sort of international or at least comparative privacy law a
lot. Do you see any problems with extraterritorial application element to the GDPR? For instance, we see that the European Court of Justice is now considering the extraterritorial application of the right to be forgotten? We saw a Canadian court deal with some of that earlier this year with Google. So do you see that as a potential pushback?

MR. SOLOVE: I mean, there are definitely certain problems with that. I mean, a lot of laws, including U.S. laws, have extraterritorial application as well, including the California law. To some extent, every country and every region has a right to regulate those who do business in its borders. I guess one thing is good luck enforcing that over in the U.S. If a company is not in Europe, the GDPR says it applies, but I do not see what they are going to do to really enforce it.

So it is there on paper. It looks scary on paper, but, in practice, it is kind of a joke. They really cannot enforce it. There are certain aspects of GDPR that would not fly under the First Amendment, but there are a lot of aspects that are fine under the First Amendment that are embodied in various U.S. laws. I can look to a lot of different provisions of GDPR and find analogs and similarities in U.S. laws,
including even rights to be forgotten. There are
already rights to be -- COPPA has one, for example.

A lot of these are not like foreign, radical
concepts. There are certain things about GDPR that
just will not fly in the U.S. for First Amendment
reasons, as well as just general U.S. approaches. So
the idea that you need to have a lawful basis to
process data, that you have to be somehow authorized
to do it, and there are only certain justifications
that allow you to even use or collect data, I do not
think that would really work in the United States. It
is just so contrary to the U.S. approach, which is
generally a permissive approach, like you can use it
unless there is a problem that is caused by it.

And that is generally the U.S. approach is
not to just say you need authorization to do
something, unless what you are doing starts creating
an issue. I do not see that being carried over. But
I think a lot of the things the GDPR does and a lot of
things these laws do are not so radical and foreign
and different to the U.S. You look at HIPAA, you look
at GDPR, there are a lot of similarities, actually
much more than the California law. HIPAA has a lot of
similarities.

A lot of GDPR is just having a privacy
program, doing basic risk assessments and other things, all of which HIPAA requires. And the GDPR often does not say a lot about what those things should entail. It says, hey, do privacy by design and do it early, but it does not say what you are supposed to do for that. It is largely empty. It says, do a privacy impact analysis, but it does not have a lot of specificity on these things. And that is sort of how HIPAA is in a lot of ways, too.

So in a way, I do not think that things are so radically at odds with each other and that the GDPR approach is radically incompatible with the United States. I think there are certain things that will not transfer over, but I think the things that transfer over, the commonalities and the things that could work, are more than the things that cannot.

DR. COOPER: Anyone else want to jump in on that?

All right. So in our little bit of time left, I have lots of great questions. I, unfortunately, will not have time to ask all of them. But I want to direct one to Maureen because it is right in your bailiwick.

It has to do with the FTC taking advantage of its dual role as both having a consumer protection
and competition side, and using that to examine the impact of data, not just in the consumer protection dimension, but on the impact on small business competition and entry. And I know you have written about that and thought a lot about mixing privacy and competition.

COMMISSIONER OHLHAUSEN: Certainly, in a competition analysis, data could be considered if it is an asset that is being combined in a merger in a way that is going to reduce competition in some way, much like combining two distribution systems or combining two factories.

I think one of the questions, though, is really a lot of times concerns about privacy are really what is driving concerns about trying to use privacy in a competition analysis. So it is not really about hurting competition; it is about hurting privacy. So I think there certainly are examples one could think of, right?

So say there were two very privacy-protective handset manufacturers and they sort of had that big part of the market, and so you could say that was a separate part of the market than other handsets, and they were going to merge, and then they were going to have a high market share of handsets that compete
on privacy attributes. That could be an antitrust case. Just like you could have two manufacturers of super premium ice cream who want to merge.

DR. COOPER: Just hypothetically.

COMMISSIONER OHLHAUSEN: Just hypothetically, super premium ice cream -- that was a case. So I think it is not that data cannot be a part of it; it is just the concern has to be about competition.

Now, on the other hand, we have had situations where one company is buying another company and they are going to be combining data sets. They are not-horizontal competitors. It is not that it is taking a competitor out of the marketplace. But the data that is going to be transferred over to the merged company was collected with a certain set of promises. What we have said through our head of Bureau of Consumer Protection is that the promises travel with the data.

So if you collected this data and said, we are not going to, you know, use it for marketing, and then they are going to combine it and then use it for marketing, they would have to get basically a new consent from the consumers. So if a consumer says, well, no, no, that is not what I wanted, then they
would have to take them out of that data set. So I think that is the way it has been handled.

There are mergers cases where you are combining two very unique data sets. Like we had a case about mapping used for insurance and we had a competition remedy because it was going to reduce competition. So we actually had a remedy that required sort of replication and sharing of this data set.

But, often, these types of mergers that involve a lot of data are being combined to create what we would consider in antitrust like a new product, like a new efficiency, as long as it is not harming consumers as a consumer protection matter. And that would not be considered a negative kind of thing.

So I actually have an article about this, called Competition, consumer protection and the right approach to privacy.

DR. COOPER: She will be outside signing it on the way out.

COMMISSIONER OHLHAUSEN: Right.

DR. COOPER: It is not for sale.

COMMISSIONER OHLHAUSEN: It is in the Antitrust Law Journal in 2014.
So it is not to say these values are not important; it is to say what tools you use are -- that is an important consideration. If you are concerned just about someone is going to use data in a way that harms consumers, that is a core consumer protection issue, and you should use those tools. If you are concerned that this transaction that involves data sets is going to reduce competition, either competition on privacy or competition in some other form, then antitrust is the right tool.

DR. COOPER: Anyone else?

DR. BEALES: Yeah, I think there is a different perspective on it that is also important. As we look at and as states and Congress look at additional regulatory requirements, those often have differential effects on competitors. And, in particular, in the privacy world, it is a whole lot easier for a consumer-facing company, like Google or Facebook, to get consent than it is for the behind-the-scenes somebody that does exactly the same thing, using exactly the same information, but they collect it via cookies planted by a host of different publishers participating in an advertising network. But that is the competitive fringe in the online advertising market.
And regulations that make it harder for them help to entrench Google and Facebook, and that is not necessarily a good thing. But it is very much a competitive concern.

DR. COOPER: Anyone?

Okay. So here is a question in our 2 minutes and 21 seconds left, about the -- it did not come up surprisingly, but we kind of touched around it -- the privacy paradox. Maybe, Daniel, I will aim this one at you first. But the audience member says, how do you reconcile the fact that consumers regularly value privacy highly when asked, but they tend to do things that contradict these stated values?

And I think we all know that as a privacy paradox, that stated preference seems to diverge from revealed preference in the privacy space.

MR. SOLOVE: Yeah, Alessandro Acquisti, an economist at Carnegie Mellon, has done some really great work on this and studied this very effect of what people say and what they do are at variance. And that is often the case.

And part of it is that the choices that people have and the way that they make those choices are shaped by how those choices are presented to them and a bunch of other factors that could lead them to
make choices that are not always consistent with their stated attitudes. So we might say, well, what is true? Do we say the behavior is the truth about what they really value or is it what they say? I actually think it is neither. I do not think what they say is actually reflective of how they actually value something. But I do not think behavior is always a good metric, either, because there is a lot of things skewing the behavior. And Acquisti does a great job of pointing out all the different skewing things on the behavior.

So in a way, it is very difficult to measure what consumers actually value because I think both metrics are problematic for doing that. Because a lot of it is how informed the consumer is and what information they are given and so on. And you get very odd effects.

One of his studies is very interesting. He had two groups. In one group he told them, they are going to collect very sensitive data. In one group he said, we are going it protect it; we are going to give all sorts of privacy protections and security protections on it. In the other group he said nothing. And guess which group disclosed more? The group he said nothing to.
So it is almost like punishing you for actually doing the right thing and that is because when you told people all the privacy and security protections, people’s minds suddenly woke up, oh, my gosh, maybe there are these risks I did not think about, and that made them more cautious. So a lot of interesting effects and I encourage you to read his work. It is very illuminating and will do a much better job than I did at tackling this issue.

DR. COOPER: I am sorry, David.

MR. VLADECK: I will make one other -- you know, people are generally presented with take-it-or-leave-it offers. You either are on Facebook or you are not or you use Google search or not. We did some research when I was at the FTC about these issues and part of it just -- and this just sort of echoes what Dan says -- how the choice is presented.

DR. COOPER: Yeah. Howard, did you want to --

DR. BEALES: I think how you frame it clearly matters. But consumers have all sorts of preferences where it is a perfectly valid preference and a perfectly real preference, but when they confront the cost of satisfying that preference, they
1 make a different choice. There are issues of how you
2 pose the question and how you define it and what
3 consumers know. But there is also these choices have
4 costs, and consumers might make them differently.
5
6 The example I like is organic foods.
7 Something like 48 percent of consumers say, yep, I
8 prefer organic. Organic’s market share is about 5
9 percent.

DR. COOPER: Well, I wish we could go on
forever. I am sure the rest of you all do. But we
are out of time by the six zeroes on the clock up
here. So join me in thanking this great group today.

(Appause.)

DR. COOPER: And I will await my
instructions from Bilal.

(Panel 3 concluded.)
CLOSING REMARKS

MR. SAYYED: I have one more little end note. Howard Shelanski, a professor here, will give closing remarks, and here he comes now. Price is Right style.

MR. SHELANSKI: All right, great. Thanks very much, Bilal. And thanks to all of you for being here. I am used to, at academic conferences, saying I am standing between the audience and cocktail hour. There are no cocktails here, so you guys are stuck.

(Laughter.)

MR. SHELANSKI: I will, nonetheless, keep things brief.

I want to start by just reiterating what Dean Trainer said this morning. It is a real honor for us here at Georgetown to be able to host these first days of this series of hearings that the FTC is hosting. We have a deep connection to the FTC, as Dean Trainer explained, and it is really just wonderful to have such a vibrant debate and so many of you here today.

And special props for my antitrust students who showed up. I really appreciate that. Former students, so they are not getting any benefit from this since I am not teaching it this semester.
One of the things that I think has been particularly heartening about today’s discussion is we really see the full integration of the agency’s consumer protection and competition missions. I think both of those are front and center. Certainly, the last panel makes that very clear in the issues that these hearings are tackling.

You heard Bilal say earlier the Bureau of Competition and the Bureau of Consumer Protection are really complementary. I might add Bilal left one thing out of his formulation, which was the Bureau of Economics. It is my view that with a small handful of FTE, the Bureau of Economics could actually be completely substituting of both of those other bureaus. But that is perhaps a chauvinistic view from someone who spent some time at that agency and in that bureau.

The importance of these hearings really cannot be understated. I think one of the great things of the American regulatory system at large, and one that -- sort of a distinguishing set of characteristics that one sees when one goes around the world and sees how regulation and law enforcement is done in many other very sophisticated jurisdictions -- is the level of transparency and accountability that
characterizes the way our federal agencies act. And to be sure, one could be cynical about certain actions that those agencies take. But when one takes a broad view, it really is quite impressive. Agencies have to justify their decisions. Agencies have to have a coherent framework and they have to have evidence. And those agencies do not get to make those decisions on their own because they are subject to accountability through the courts. And you just have to open up the paper today to see an example of a court overruling a federal agency that did not meet those standards. So the agencies have a real obligation.

These hearings fall into that framework of transparency and accountability. An agency that fails to justify its actions in a particular case to a court loses a case. An agency that fails to justify its program and its approaches and framework loses its relevance before the public. And that is, I think, a very damaging and harmful thing to have happen.

So for an agency periodically to hold sustained public hearings, where it examines both the sets of problems on which it is focusing and the analytical framework with which it is approaching those problems is really a very important aspect of
maintaining that relevance, maintaining that legitimacy with the public. And that is exactly how I see these hearings and what I see the FTC as doing.

The FTC has always been an agency that cannot stand still and rest too comfortably with the problems it is focusing on or with the tools with which it is analyzing its approaches to those problems. Indeed, that was the spirit in which Chairman Pitofsky launched the hearing a quarter century ago. We were in a time of very interesting economic turmoil with the rise of high technology industries. Economics and other tools for assessing where there were competitive harms, where there were harms to consumers, were changing and developing.

And it was his judgment as Chair that the agency needed to go out and make sure that it was well understanding what problems the public was focused on, that it was understanding the industrial changes that were before it, and that it was understanding the state of the art of the knowledge with which it would assess those problems.

Well, I think all of those forces are even stronger today. And when Chairman Simons came into office, he came into office at a moment that most of us in the antitrust field and many of us in the
consumer protection field recognized as sort of an historic moment. I think there is sort of unprecedented debate -- I don’t want to say “unprecedented,” but certainly unprecedented for the last 40 years -- debate over some of the fundamental framework and conventional understandings of how antitrust should be enforced.

There is a recognition that we have much sharper tools out there for understanding how consumers behave and process information. It is time for the agency to step forward and make sure that it is fully taking account of and understanding that public debate, because if it does not, it will keep looking over here and the public will be thinking about problems over there.

So if you open up, again, the paper over the past week, you will read that there is a lot of public debate, a lot of debate in academia, a lot of debate in think tanks about whether the consumer welfare standard, as conventionally conceived in antitrust enforcement, is adequate to address some of the concerns about market structure changes or wealth distribution changes, things that the first panel this morning talked about.

I had people come up to me and say, can you
believe the FTC invited so-and-so; those are flaky ideas; they should not be giving air time to those, and the FTC and I firmly disagree. These are things that people are thinking about and they are motivated by the problems that everyday consumers are perceiving. And if the agency turns its back on those voices in the debate and does not take into account what might be legitimate in those arguments, the agency will lose its transparency and it will fail the test of accountability before the public.

So recognizing that, we see on all of the panels today, and on the panels that we will see in the other 19 days of hearings that I think are scheduled, a real diversity of views that explore the outer boundaries of what would traditionally be thought of as competition enforcement or consumer protection enforcement.

And only by taking into account that thinking at the outer boundaries of the hearings about the problems that might be novel or different in form from the way we have seen them before, given the rise of large digital industries, and AI and new kinds of technology -- only by fully exploring them and doing what Chairman Simons said we should do and that he would do in his opening remarks, follow the evidence.
Follow the evidence to identify where there is really a problem. Follow the evidence for where we have a good understanding of tools that can resolve those problems.

And that way the agency will do two things. The agency will modernize its thinking. It will better be able to explain its actions. Even where the action is inaction, it will better be able to say, action is not warranted or we do not know enough to take action and we are making that decision having taken into account the state-of-the-art thinking and having really heard from the public, from stakeholders of all kinds, about what the problems are that they are feeling and that they are sensing out there in the marketplace.

By doing that, the agency will become more effective. It will modify its framework as it needs to to be more effective. But it will also be more effective and transparent in justifying what framework it eventually arrives at after these hearings.

So these are more important as events than the one-off kinds of conferences that very often characterize a field. They are a sustained and iterative process over 20 days, where some of the same issues will come up again and again.
Everything is documented. Everything is public. And at the end, there will be reports very transparently explaining what evidence the agency is crediting, what arguments it is crediting, what arguments it does not feel it can credit, and the technology, if you will, of consumer protection and competition enforcement under Section 5 at the agency will be all the better for it.

So this is an important enterprise. It is an important enterprise not just for the people on the different panels, but it is an important enterprise for all of you to participate in, commenting, sending your comments to the agency. The agency has an open window for those comments right now. Because it is a unique moment that we might not get again for another 20 or 25 years. Or else it will occur only incrementally through the case-by-case kinds of transparency and accountability.

So this is a critically important moment. I think this is a really auspicious start today to that moment. I look forward to following and participating in some of, at least, the remaining 20 days. I would encourage all of you to do so as well. Thank you.

(MR. SAYYED: So I am just going to say thank
you and say 5 percent down.

(Laughter.)

MR. SAYYED: And then our next session, September 21, Constitution Center, so not very far from here. And that will get us, I don’t know, 10 percent down.

(Laughter.)

MR. SAYYED: Thank you. Thank you. Thank you to the panelists. Thank you to everybody.

(Applause.)

(End of Hearing 1.)
CERTIFICATE OF REPORTER

I, Linda Metcalf, do hereby certify that the foregoing proceedings were digitally recorded by me and reduced to typewriting under my supervision; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were transcribed; that I am not a relative or employee of any attorney or counsel employed by the parties hereto, not financially or otherwise interested in the outcome in the action.

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