The Daily Dish

Thinking Clearly About Supermarket Mergers

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The Federal Trade Commission (FTC) brought suit on Monday to block the merger of Kroger and Albertsons supermarkets. In its press release the FTC quotes its Bureau of Competition Director Henry Liu:

> *"This supermarket mega merger comes as American consumers have seen the cost of groceries rise steadily over the past few years. Kroger's acquisition of Albertsons would lead to additional grocery price hikes for everyday goods, further exacerbating the financial strain consumers across the country face today.... Essential grocery store workers would also suffer under this deal, facing the threat of their wages dwindling, benefits diminishing, and their working conditions deteriorating."*

In covering the event, *The New York Times wrote*:

> *An independent federal agency has become one of the most reliable executors of President Biden's attempts to fight inflation, at a time when the White House has few weapons of its own to quickly bring down stubbornly high prices of consumer staples like groceries. The Federal Trade Commission filed a lawsuit on Monday, joined by several state attorneys general, to challenge a merger between the supermarket giants Kroger and Albertsons. The agency's rationale in many ways echoed Mr. Biden's renewed attempts to blame corporate greed for rising prices and shrinking portions in grocery aisles.*
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> *"If allowed, this merger would substantially lessen competition, likely resulting in Americans paying millions of dollars more for food and other essential household goods," agency officials wrote in a legal complaint. Because grocery prices have risen*

> *significantly in recent years, they added, "the stakes for Americans are exceptionally high."*

There is similar coverage in many other outlets.

Collectively, the FTC and others' comments are a nice word salad but an analytical mess. Let's think about the various issues.

A single price versus inflation. This is simply definitional. Inflation is a general rise in the level of all prices. It occurs when there is an overall excess of demand (relative to supply). Yet the administration and media continue to conflate individual prices and inflation. The administration is fond of saying it is fighting inflation by lowering the price of drugs or, in this case, food. No.

The level versus the growth rate of prices. Inflation is the general rise in prices and fighting inflation is bringing that rate of increase down (hopefully to the 2 percent target, although prices would still be rising. This is very different from the statement that the goal is to "quickly bring down stubbornly high prices." That would require actual deflation.

Market power and inflation. The truly intellectually impoverished claim is that inflation is somehow the result of corporate market power, greed, or shrinking of product sizes. Eakinomics has dealt with this elsewhere, but (to repeat) talking about a single price is not a discussion about inflation, and if firms had the capacity to unilaterally raise prices, they would have done so long ago.

The impact on competition. The impact of the merger on market competition and consumer welfare should be the heart of the FTC suit. As is the case in sandwiches, airlines, and nearly every other antitrust case, defining the relevant market is a key part of the analysis. In this instance, the FTC defined the relevant market as "supermarkets" (and "supercenters") but explicitly not club stores (e.g., Costco), limited assortment stores (e.g., Aldi), premium natural and organic stores (e.g., Whole Foods), dollar stores, or e-commerce retailers (e.g., Amazon). In other words, the FTC ignores the benefits that would come from a stronger merged Kroger-Albertsons competing with Aldi, Dollar General, Trader Joe's, Costco, Target, Walmart, Amazon, and every other store that has been eating the supermarkets' market shares. If you ignore all consumer benefits, it is not hard to justify blocking a merger.

The protection of labor unions. The FTC complaint notes: "The proposed acquisition may substantially lessen competition between Kroger and Albertsons for employees." It adds that "[t]his competition for workers is most acute and apparent in the context of collective

bargaining negotiations with union grocery workers. Most of Respondents' workers are members of unions, predominantly the United Food and Commercial Workers." At an AAF event last month, former FTC Commissioner Christine Wilson warned that the impact on labor would take on an outsized role in FTC reviews. It did not take long for this to surface.

Being opposed to big corporations is politically fashionable. It would take a disciplined, coherent analysis to overcome the temptation to oppose two large corporations at the same time. Unfortunately, no such attempt is being made.