



The Daily Dish

Antitrust Is Not Anti-inflation Policy

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It's a new year, providing the opportunity to do new things, and also the chance to leave behind those that are unhelpful and flawed. And so it is that the administration and its progressive supporters should drop the ridiculous notion that antitrust policy is the solution to the inflation problem it has created. A leading example of this [assertion](#) is by former Labor Secretary Robert Reich, who contends that “there's a deeper structural reason for inflation, one that appears to be growing worse: the economic concentration of the American economy in the hands of a relative few corporate giants with the power to raise prices.”

A firm with market power has relatively few competitors and is thus able to charge a higher price than in a competitive market. In the extreme, a monopolist will keep raising its price until the loss in sales overwhelms the higher profit margin per sale. So, it is true that there may be an opportunity to “raise prices” *relative* to the price that would prevail in a more competitive market. But notice as well that the firm with market power does not *keep* raising prices. There is no conceptual link between market power and sustained increases in prices.

Moreover, inflation is a sustained rise in the general price level. So, for market power to explain our current inflation (and for antitrust to be the solution) it would have to be the case that *every* firm simultaneously got additional market power relative to *every* other firm *every* week in 2021. That is well beyond implausible.

The reality is that significant overall demand – fueled by excessive fiscal stimulus and extremely loose monetary policy – relative to supply constrained by global pandemic-induced labor shortages has produced the strongest inflation in decades. It may be the case that supply constraints will be relaxed in 2022, but the only real anti-inflation policy will be to reduce the growth in demand. Don't hold your breath for restrictive fiscal policy, so all eyes will be on the Federal Reserve. It will have the unattractive choice between more aggressive anti-inflation efforts, at the risk of slower or even negative growth, or less aggressive actions that permit inflation to take hold. (This, by the way, is why central bankers hate letting inflation get started to begin with.)