1.19. ANTITRUST LAWS

The market economy is based on the belief that competition is in everyone's best interest. When competitors agree to fix prices, rig bids or divide the market, the public loses the benefits of competition. The prices that result are artificially high. This is unfair to consumers who must pay more for the things they buy. It also damages an economy. For that reason, the governments of many countries have enacted legislation known as *ANTITRUST LAWS* – designed to safeguard competition. The major federal antitrust laws in the USA are:

SHERMAN ANTITRUST ACT, 1890 which makes difficult to create a monopoly, enter into a conspiracy, or "restrain trade." Individual violators can be fined up to $ 250 000 and sentenced up to three years in prison. Corporations can be fined up to $ 1 million.

CLAYTON ACT, 1914 carries no criminal penalties. It prohibits certain business practices to lessen competition or create a monopoly. The Act permits individuals injured by antitrust violation to sue in federal court their damages.

FEDERAL TRADE COMMISSION ACT, 1914 which created an agency the Federal Trade Commission (FTC), to enforce the antitrust laws. One of its responsibilities was protection the public against false or misleading advertising.

How do some businesses grow to be worth billions of dollars and large enough to control a market? They do it in two ways-internally and externally. Firms that grow internally expand their activities by adding plant, equipment or personnel. Those that grow externally acquire other companies through mergers.

Following the merger, the acquired firm is either dissolved or becomes a division of the combined, new firm.

Mergers fall into three categories: horizontal, vertical or conglomerate.

HORIZONTAL MERGERS – combination of two or more companies engaged in the same business-like two book publishers or two car manufacturers.

VERTICAL MERGERS – the combination of two or more companies involved in different steps of the same production process. For example, when an automobile manufacturer buys a steel mill to make steel necessary for its cars.

CONGLOMERATE MERGERS – combine two or more unrelated businesses under single management. Examples include Liggett and Meyers, a cigarette manufacturer, merging with Alpo, the dog food company.

Some companies also establish joint ventures where two companies keep their independence while cooperating on a particular project. Toyota and General Motors teamed up to produce the Nova (now called Geo). Joint ventures allow companies to combine their resources.