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Revitalizing Section 5 of the FTC Act Using “Consumer Choice” Analysis

Robert H. Lande

The ongoing debate over the breadth and nature of Section 5 of the FTC Act has intensified due to the outcome of the recent Presidential election. Some call for or predict a much broader and more aggressive approach to Section 5. Others caution that reviewing courts will not permit an overly expansive interpretation of Section 5 unless it is clearly bounded by a structure that will prevent it from becoming untethered and standardless.

In this article, I propose that the use of the consumer choice framework would be the best and perhaps the only way to revitalize Section 5 in a manner that is definite, predictable, principled, and clearly bounded. This approach would focus attention on the factors that are important for a market to function competitively, including variety and quality, as well as price. It also would provide a relatively clear way for businesses and courts to distinguish anticompetitive conduct from procompetitive or benign conduct. If the Commission were to adopt the consumer choice limitations, the Act would be given the broad interpretation Congress intended, and this reinvigorated interpretation would be likely to be sustained by reviewing courts.

■ **Robert H. Lande** is Venable Professor of Law, University of Baltimore School of Law. This is a revised and expanded version of testimony originally presented as the Statement of Robert H. Lande, Venable Professor of Law, University of Baltimore School of Law, at the Federal Trade Commission’s Workshop on Section 5 of the FTC Act as a Competition Statute, Oct. 17, 2008, Washington, D.C. The author is grateful to Albert A. Foer for extremely useful comments on an earlier draft and to Christine Carey for excellent research assistance.

Section 5 of the FTC Act Is Significantly Broader than the Other Antitrust Laws

There is no doubt that when Congress enacted Section 5 of the FTC Act, it intended the law to be more aggressive than the Sherman and Clayton Acts.¹ The legislative history and Supreme Court decisions² demonstrate that Section 5 was intended to cover incipient violations of the other antitrust laws, conduct violating the spirit of the other antitrust laws, conduct violating recognized standards of business behavior, and conduct violating competition policy as framed by the Commission.³ Even though reasonable people may differ as to whether the FTC Act should be more expansive than the other antitrust laws, congressional intent concerning this point is clear.⁴

Some might question the propriety of subjecting conduct to a different, tougher legal standard when it is challenged under Section 5 of the FTC Act. For example, one might ask why an exclusive dealing arrangement should be evaluated under an incipency standard when it is challenged under the FTC Act, but not when challenged under the Sherman Act?⁵ One answer is that Sherman Act violations lead to automatic treble damages and award of attorneys’ fees to victorious plaintiffs.⁶ By contrast, there is no private right of action under the FTC Act, and FTC Act vio-

¹ See Neil W. Averitt, *The Meaning of “Unfair Methods of Competition” in Section 5 of the Federal Trade Commission Act*, 21 B.C. L. REV. 227, 233, 251, 271 (1979–1980).

² See, e.g., *FTC v. Sperry & Hutchinson Co.*, 405 U.S. 233, 239–44 (1972).

³ See Averitt, *supra* note 1, at 228–29, 242, 251, 271, 275.

⁴ See *id.* at 229–38.

⁵ For the current legal treatment of exclusive dealing arrangements under the Sherman Act, see the sources cited *infra* note 31.

⁶ See 15 U.S.C. §15(a).

lations are not precedents that lead to private litigation unless an FTC decision specifically finds a Sherman Act or Clayton Act violation; a “pure” FTC Act violation would not do this.⁷ Moreover, mergers already are judged under two different laws that employ two different standards. Mergers can potentially violate Section 2 of the Sherman Act,⁸ but only if they violate a monopolization standard. Mergers also can violate Section 7 of the Clayton Act, where they are scrutinized under a much stricter incipency standard.⁹ In other words, despite the existence of the 1890 Sherman Act, Congress wanted mergers challenged more aggressively, so in 1914 it enacted the Clayton Act. Similarly, Congress believed that the Sherman Act was not aggressive, flexible, or broad enough,¹⁰ so in 1914 it enacted the FTC Act.

However, the Supreme Court case law addressing Congress’ intent in enacting Section 5 is relatively old.¹¹ There is no guarantee today’s more conservative¹² Court would interpret Section 5 expansively today. If the Commission were to attempt to promulgate an approach to the FTC Act that was vague, insufficiently bounded, or that gave it undue discretion, more conservative reviewing courts today might well restrict the scope of Section 5 and make it coterminous with the other antitrust laws, no matter how clear the congressional intent and no matter what the older case law holds. A narrower interpretation of Section 5 would be especially likely if the Commission were to articulate the scope of Section 5 in non-economic terms, such as by forbidding conduct that is “unjust,” “oppressive,” or “immoral.” Fortunately, the Commission does have a way to minimize the risk of reversal on appeal.

If the Commission were to adopt the consumer choice limitations, the Act would be given the broad interpretation Congress intended, and this reinvigorated interpretation would be likely to be sustained by reviewing courts.

Section 5 Can Be Expansive If, But Only If, It Is Constrained by the Choice Framework

Section 5 prohibits conduct that constitutes “unfair methods of competition” (which, in this article, I call Section 5 antitrust violations) as well as conduct that constitutes “unfair or deceptive acts or practices” (which, in this article, I call Section 5 consumer protection violations).¹³ The choice framework would impose a threshold requirement that every Section 5 antitrust violation significantly impairs the choices that free competition brings to the marketplace.¹⁴ The choice framework also would impose the requirement that every Section 5 consumer protection violation significantly impairs consumers’ ability meaningfully to choose from among the options the market provides. Construed this way, the two halves of Section 5, operating together, ensure that consumers have

⁷ See Averitt, *supra* note 1, at 251 n.112; see also *id.* at 253 n.116, 299 n.303.

⁸ Section 2 of the Sherman Act provides: “Every person who shall monopolize, or attempt to monopolize, or combine or conspire . . . to monopolize any part of the trade or commerce . . . shall be deemed guilty of a felony . . .” 15 U.S.C. § 2. Illegal conduct can include corporate mergers. See LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 4:41 (4th ed. 2003).

⁹ See Robert H. Lande, *Resurrecting Incipency: From Von’s Grocery to Consumer Choice*, 68 ANTITRUST L. J. 875, 876 (2001).

¹⁰ See Averitt, *supra* note 1, at 228–29, 233, 242, 251, 271, 275.

¹¹ The Supreme Court’s most recent expansive interpretation of Section 5 occurred more than twenty years ago in *FTC v. Indiana Federation of Dentists*, 476 U.S. 447, 454 (1986), where the Court characterized Section 5 to include traditional antitrust violations and also “practices that the Commission determines are against public policy for other reasons.”

¹² See William M. Landes & Richard A. Posner, *Rational Judicial Behavior: A Statistical Study* 6, tbl.3 (U. Chi. Law & Economics, Olin Working Paper No. 404, May 23, 2008), available at <http://ssrn.com/abstract=1126403> (documenting that a large proportion of the most conservative Supreme Court justices of recent decades are serving on the Court today).

¹³ See 15 U.S.C. § 45.

¹⁴ See Neil W. Averitt & Robert H. Lande, *Using The “Consumer Choice” Approach to Antitrust Law*, 74 ANTITRUST L.J. 175, 182 (2007) [hereinafter *Using the “Consumer Choice” Approach*]; see also Neil W. Averitt & Robert H. Lande, *Consumer Sovereignty: A Unified Theory of Antitrust And Consumer Protection Law*, 65 ANTITRUST L.J. 713, 718–20 (1997) [hereinafter *Consumer Sovereignty*].

the two ingredients needed to exercise effective sovereignty—a competitive array of options and the ability to choose meaningfully from among these options.¹⁵ Antitrust law prevents restraints that would restrict the competitive array of options in the marketplace, ensuring these competitive options are undiminished by artificial restrictions, such as price fixing or anticompetitive mergers. Consumer protection law then ensures that consumers are able to make a reasonably free and rational selection from among those options, unimpeded by artificial constraints, such as deception or the withholding of material information. In this way, the two halves of Section 5 together protect a free market economy.

By contrast, conduct not causing either type of problem should not violate Section 5 of the FTC Act. Conduct not unduly restricting the options available in the marketplace should not be an antitrust violation, and conduct not unduly restricting consumers' ability to choose from among these options should not constitute a consumer protection violation.

The choice approach to antitrust, instead of a price or efficiency approach,¹⁶ has the advantage of explaining accurately, simply and intuitively, in a way that is easy to understand, why antitrust is good for consumer welfare.¹⁷ Under a consumer choice standard, factors like innovation, perspectives,¹⁸ quality and safety would in effect be moved up from the footnotes, where they are all too-often forgotten, into the text, where they would play a more prominent role in the antitrust evaluation. When antitrust law is construed and applied within the consumer choice framework, it will change some antitrust analysis because it will give greater emphasis to such short term issues as quality and variety competition, and to such long term issues as competitive innovation, ideas, and perspectives. It would make a difference in several broad categories of cases where a price or efficiency approach to antitrust often would lead to the wrong result.¹⁹ The consumer choice framework could also lead to more aggressive enforcement,²⁰ but would do so in a predictable, principled manner.

¹⁵ The converse, however, is not correct. It is not true that everything that reduces consumer choice is an antitrust violation, or that everything that reduces consumers' ability to choose from among the options the market provides is a consumer protection violation. What is true is that every antitrust violation reduces or distorts the choices that are on the market. It also is true that every consumer protection violation reduces or distorts consumers' ability to choose from among the options the market provides. Averitt & Lande, *Consumer Sovereignty*, *supra* note 14, at 715–22.

¹⁶ For specific differences between the consumer choice, price and efficiency approaches, see Averitt & Lande, *Using the "Consumer Choice" Approach*, *supra* note 14, at 185–89.

¹⁷ The choice framework should also be applied to Sherman Act and Clayton Act cases. Fortunately, there is reason to believe that all antitrust jurisprudence is slowly evolving in this direction. *Id.* at 263–64.

¹⁸ Competition in terms of perspectives arises most meaningfully in the media contest. *See id.* at 206–12.

¹⁹ There are several categories of cases where courts have reached the wrong results, and would be likely to reach the right results if they had used the choice approach. The first category involves conduct in markets with little or no price competition, as may occur with certain types of regulation. In these situations, no avenues exist for properly assessing consumer welfare without focusing explicitly on non-price issues. For these markets a price standard would be inadequate because our main concern is artificially diminished consumer choice. *See id.* at 196–99.

A second category of cases for which the consumer choice approach would work better involves conduct that increases consumers' search costs or otherwise impairs their decision-making ability. Such conduct tends to cause consumers to obtain products or services less suited to their needs, as well as to produce adverse effects on price. There are a large number of examples, including the advertising restriction cases and similar cases that involve collusion to raise consumer search costs. *Id.* at 199–201.

Finally, there are cases involving markets in which firms compete primarily through independent product development and creativity, rather than through price. These markets may involve high-tech innovation or editorial independence in the news media. *Id.* at 201–22.

²⁰ *Id.* at 196–222.

Three Examples: Cases Similar to *N-Data*, Invitations to Collude, and Incipient Exclusive Dealing and Tying Violations

In this section I provide three examples of ways that Section 5 usefully could be construed and applied more expansively than the other antitrust laws. I will also briefly show how the choice framework would beneficially assist in the analysis of each example, and raise the probability of a reviewing court sustaining a decision by the Commission.

1. Cases Similar to *N-Data*. The FTC's action in the *Negotiated Data Solutions (N-Data)* case should be applauded,²¹ and the Commission commended for condemning the opportunistic behavior at issue and affirming that conduct can be an antitrust violation of the FTC Act even if it does not violate the Sherman Act.²²

The issues in *N-Data* never reached a reviewing court, but the next time the Commission decides a similar case the issues could be appealed. The FTC's approach to such cases would be more likely to be sustained if it were supplemented by "consumer choice" limitations that make it clearer and more predictable why the conduct at issue was challenged.

It is not completely clear that the conduct at issue in *N-Data* would have violated the Sherman Act. It could be argued that the conduct only constituted the exploitation of intellectual property rights, in which case it might not have violated the Sherman Act. It could also be argued that the case does not clearly involve an act of monopolization in violation of Section 2 of the Sherman Act because the original patent holder adhered to its agreement, and the successor holder was just exploiting its newly acquired patent rights, rather than taking improper steps to acquire or maintain monopoly power.²³ In light of this uncertainty, it is fortunate the Commission was able to use Section 5 of the FTC Act to challenge the anticompetitive conduct at issue.

Even though the Commission's *N-Data* decision came to the right result, the majority opinion's overall articulation of its "unfairness" standard risks attack for being unduly indefinite. The Commission correctly noted: "The legislative history from the debate regarding the creation of the Commission is replete with references to the types of conduct that Congress intended the Commission to challenge" including conduct that is "unjust, inequitable or . . . contrary to good morals."²⁴ Despite the clear legislative intent to give the Commission the power to define, challenge, and condemn such conduct, doing so arguably would give the Commission too much discretion. Any Commission assertion that conduct violates Section 5 because it is "unjust, inequitable or . . . contrary to good morals" also could be criticized as not providing sufficient notice to businesses as to what specific conduct is illegal.

There is no doubt that when Congress enacted Section 5 of the FTC Act, it intended the law to be more aggressive than the Sherman and Clayton Acts.

²¹ See *Negotiated Data Solutions LLC*, FTC File No. 051 0094, 2008 WL 4407246 (Sept. 22, 2008) (complaint and consent order), available at <http://www.ftc.gov/os/caselist/0510094/080122statement.pdf>.

²² *Id.*

²³ There was free and fair competition at the time presentations were made in the early 1990s by owners of different technologies to the Institute of Electrical and Electronics Engineers (IEEE), a standard-setting organization, in connection with the selection of a standard to facilitate interoperability between Ethernet technologies. In that connection the IEEE accepted the offer of National Semiconductor in 1994 to license its technology (which accomplished the desired objective) for a one-time fee of \$1000 (a price far below the monopoly level).

After roughly eight years, following transfer of the pertinent patents to a new owner, the new owner increased its royalty demand. Rather than honor the price that had been established through the competitive standard-setting process, due to lock-in effects consumers purchasing from licensees were forced to pay higher prices to cover the increased licensing fees. This was a significant change to the (price) choice that competition had brought to the marketplace roughly eight years earlier. The conduct therefore quite properly was found to violate Section 5 of the FTC Act. See *N-Data*, 2008 WL 4407246.

²⁴ See Statement of Commission at 1–2, *N-Data*, available at <http://www.ftc.gov/os/caselist/0510094/080122statement.pdf> (citations omitted).

The consumer choice limitation would help reassure the antitrust and business communities that the Commission is not evaluating conduct on an ad hoc, unprincipled basis.

However, *N-Data's* conduct did artificially remove important consumer choices that would have arisen if competition had been set by the free market.²⁵ For this reason, it would have been condemned if the Commission had utilized the choice approach. Moreover, because the choice framework carefully relies upon an extensive body of earlier Commission "unfairness" policy statements and opinions, as well as court decisions, it would have helped inoculate the Commission's opinion against the charge that it provided inadequate notice that the conduct in question was illegal. Additionally, the consumer choice limitation would help reassure the antitrust and business communities that the Commission is not evaluating conduct on an ad hoc, unprincipled basis.

When a case like *N-Data* is appealed, the reviewing courts would be more likely to give deference to the FTC's interpretation of Section 5 if "unfairness" were limited to practices that significantly interfere with consumer choice, rather than if the Commission uses "fuzzier" concepts such as "unjust," "inequitable," or "contrary to good morals." The consumer choice limitation also would provide bounds that would demonstrate that the Commission was not seeking open ended powers. This should help convince reviewing courts to give the Commission the considerable deference it deserves when it goes beyond traditional Sherman Act violations.

2. Invitations to Collude. Invitations to collude can violate Section 2 of the Sherman Act.²⁶ However, for enforcers to prove a Sherman Act violation they must undertake several formidable tasks.²⁷ First, they must prove a relevant market, a complex and time-consuming undertaking. Then the enforcers must prove that the challenged conduct was anticompetitive (as that term has been defined) and that it would result in either the respondent's achieving or maintaining monopoly power or the "dangerous probability" of its achieving monopoly power. This analysis would have to show harm to competition, including a careful analysis of barriers to entry. Lastly, claimed efficiencies associated with the practices would have to be litigated.²⁸ Like every successful Section 2 action, these cases would be complex, lengthy, and costly.

By contrast, naked collusion cases are much less complicated. In these cases the enforcers do not have to define markets, prove difficulty of entry or any form of market power, litigate efficiencies, or establish actual anticompetitive effects.²⁹

Invitation to collude cases should be as easy to prove as collusion cases. The same jurisprudential reasons that permit the enforcers to dispense with the complex, costly and lengthy market definition and market power issues in collusion cases also apply to invitations to collude cases. Moreover, invitations to collude can comfortably be characterized as conduct that significantly risks impairing the price or other choices that the marketplace otherwise would provide to consumers, and thus fit comfortably within the consumer choice framework. They should, as the Commission has concluded,³⁰ violate Section 5 of the FTC Act without requiring the Commission

²⁵ If the Commission adopted the self-limiting principle that every antitrust violation must significantly impair the choices that free competition would have brought to the marketplace, in the *N-Data* case the choice option of concern would have been the price of the products in question. At the time of the original presentations to the IEEE, the presentations should have been forced to fully compete with each other in terms of price options (as well as quality options). The IEEE should have been free to select as its preferred technological option the one with the lowest long term cost.

²⁶ *United States v. American Airlines*, 743 F.2d 1114, 1121 (5th Cir. 1984) ("attempted monopolization may be established by proof of a solicitation along with the requisite intent").

²⁷ See LAWRENCE A. SULLIVAN & WARREN S. GRIMES, *THE LAW OF ANTITRUST: AN INTEGRATED HANDBOOK* ch. 3 (2006).

²⁸ *Id.* at 73–74.

²⁹ *Id.* at 228–29. This is not to suggest that collusion cases are simple. Collusion cases are, however, far less complex than Section 2 cases.

³⁰ *Valassis Commc'ns, Inc.*, FTC File No. 051 0008 (Mar. 14, 2006) (Analysis to Aid Public Comment), available at <http://www.ftc.gov/os/caselist/0510008/060314ana0510008.pdf>.

to undertake the Herculean tasks of proving the traditional Sherman Act requirements. This would save money for the taxpayer and also lead to faster and more reliable results.

3. Incipient Exclusive Dealing and Tying Violations. There is substantial uncertainty over the market share required to establish a tying violation, and the amount of foreclosure necessary for an exclusive dealing violation.³¹

Similar uncertainty exists over how much pressure or inducement, in the form of a discount or other conduct, must exist before an arrangement will be termed a “tying” or “exclusive dealing” arrangement.³²

The traditional market share requirements and degree of certainty over whether an effective tie or exclusive dealing arrangement should be found to exist should be relaxed when the case involves a defendant with a significantly larger market share than that of the plaintiff. In these “incipient” tying or exclusive dealing situations, incumbents often will be able to disadvantage significantly smaller competitors or would-be entrants because their market share is larger, even if it is not large enough for a traditional Sherman Act violation. Suppose, for example, a company introduces a new brand of super-premium ice cream. Suppose also that an existing seller of super-premium ice cream has 30 percent of this market, and also another 30 percent of the premium and non-premium ice cream markets. Then suppose the incumbent firm tells supermarkets that they have to choose between the established firm’s products and the newcomer’s products. No efficiencies would arise if the established firm’s demands were met.

These facts, including defendant’s low market share, would be unlikely to constitute either a tying or exclusive dealing case.³³ Moreover, market definition and market power or foreclosure issues would be extremely difficult, lengthy, and costly to litigate. However, if the incumbent’s exclusionary strategy succeeded, consumer choice in this market, in terms of varieties of ice cream on the market, would be diminished for the short term. Moreover, successful exclusion would risk diminishing incentives to innovate and enter by non-incumbents in the long term. This conduct should violate Section 5 as an incipient exclusive dealing or tying arrangement.³⁴

The consumer choice framework helps explain why incipient tying and exclusive dealing arrangements should violate Section 5. Its focus on actual or potential choice in the marketplace should also increase predictability for the business community and make it more likely that reviewing courts would uphold the Commission’s determinations. Moreover, treating incipient exclusive

³¹ See Sullivan & Grimes, *supra* note 27, §§ 7.2, 7.3; HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE ch. 10 (3d ed. 2005). The market shares and market power required can be similar to those required for Section 2 violations as some commentators suggest: “courts require a significantly lower foreclosure share in Sherman Act § 2 cases than in Sherman Act § 1 cases.” See EINER ELHAUGE & DAMIEN GERADIN, GLOBAL ANTITRUST LAW AND ECONOMICS 530 (2007).

³² See ELHAUGE & GERADIN, *supra* note 31, at 623–33.

³³ For the necessary requirements, see *id.* at 382–87, 404–05, 435–39.

³⁴ A similar exclusive dealing case where a diminution of consumer choice occurred was in *J.B.D.L. Corp. v. Wyeth-Ayerst Labs., Inc.*, 485 F.3d 880 (6th Cir. 2007). Although the *Wyeth* case was vastly more complicated than the ice cream hypothetical, the conduct at issue was bundled discounts, in the form of rebates, that were tantamount to an exclusive dealing arrangement. *Id.* at 884–85. The conduct offered no significant efficiencies and resulted in the serious possibility of diminished consumer choice in the conjugated estrogen market. See *id.* at 886 (One of Wyeth’s clients, Express Scripts, wanted to renegotiate its contract with Wyeth because a small group of Scripts’ customers insisted on having the other product, Cenestin, available but defendant refused and reminded Script that 40 million dollars in rebates per year would be at risk if it made the other product available). The defendant’s exclusionary strategy could have significantly diminished an important aspect of consumer choice in the short term, regardless whether prices were affected by its conduct. Moreover, successful exclusion would risk diminishing incentives to innovate and enter by non-incumbents in the long term. Unfortunately, the court focused on price, rather than consumer choice, and did not condemn the conduct in question. *Id.* at 886–91. Regardless whether the conduct should have been found to constitute a Section 2 violation, it should be a violation of Section 5 of the FTC Act.

dealing or tying arrangements as a violation of Section 5 would advance international harmonization in an increasingly globalized economy by beneficially moving U.S. antitrust law in the direction of European Union competition law.³⁵

Conclusion

In conclusion, Section 5 of the FTC Act should be interpreted to be significantly broader than the other antitrust laws. But this expansive mandate only should be used within the consumer choice framework. ●

³⁵ See ELHAUGE & GERADIN, *supra* note 31, at 496–97, 531–44, 601–03, 618–23.