United Shoe Machinery (1953)

This case is important in providing another example of a business practice that could indicate illegal monopolization by a dominant firm. The leasing practices of United Shoe were found to be exclusionary, and therefore evidence of illegal monopolization.

United Shoe supplied between 75 and 85 percent of the shoe machinery in the United States, and there was no question of its dominance. United would not sell its machines to shoe manufacturers, but leased them for ten-year terms. There was a requirement that lessees had to use United machines if work was available. Also, the practice of United was to provide free repair services, and the Court viewed this as restricting entry, since rivals of United would have to offer repair services as well. That is, independent repair firms would not exist given United's zero charges. Having to offer repair services in addition to shoe machinery would raise a capital requirement barrier.

The remedy in the United Shoe case was to purge the leases of their restrictive practices. Divestiture into three separate manufacturing plants was proposed by the government. However, the Court held this to be unrealistic because all of United's machine manufacture was conducted in a single plant in Massachusetts.

The leasing practices of United have been argued by some critics as not being effective exclusionary practices. That is, if rival shoe machinery suppliers were excluded from potential customers tied to ten-year leases, would they have been excluded less if potential customers bought the machinery?

Another issue that is puzzling is why shoe manufacturers would be willing to go along with restrictive leasing practices that are designed to provide United Shoe with monopoly power toward them. Consider Judge Richard Posner's example:

Suppose that a competing shoe-machinery manufacturer offers to lease a machine for $10,000 a year under a lease terminable at will, while United offers to lease a similar machine for $9,000 a year but insists on a ten-year lease designed to destroy competing producers and enable United to raise its price to $20,000 at the end of the term. The $9,000 price is no bargain to the shoe manufacturers since the deal offered by United imposes an additional cost on the purchaser measured by the present value of the higher price in the future. If that value is, say $2,000 a year, United's offer is tantamount to charging the lessee $11,000.

An alternative explanation is that United induced shoe manufacturers to lease its machinery by making the terms of the lease very attractive. According to Posner, the record of the United Shoe Machinery case indicated that United in fact offered extensive financial concessions to induce shoe manufacturers to lease its machinery. This explanation suggests that United was giving up part of its possible monopoly profits for market share. This is, of course, analytically similar to limit pricing by a dominant firm.