

ONE HUNDRED EIGHTEENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON THE JUDICIARY

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February 14, 2023

The Honorable Lina M. Khan, Chair
The Honorable Rebecca K. Slaughter, Commissioner
The Honorable Christine S. Wilson, Commissioner
The Honorable Alvaro M. Bedoya, Commissioner
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, DC 20580

Dear Chair Khan and Commissioners Slaughter, Wilson, and Bedoya:

In January, the Federal Trade Commission (FTC) issued a proposed rule that would outright ban voluntary non-compete clauses in virtually every employment contract across the country.¹ This would result in tens of millions of contracts becoming unenforceable.² The FTC's proposed rule exceeds its delegated authority and imposes a top-down, one-size-fits-all approach that violates basic American principles of federalism and free markets. This power grab is just the latest example of the Biden FTC straying from the Commission's mandate in its eagerness to centrally plan the American economy to meet a preferred social agenda.³ The Committee on the Judiciary is conducting oversight of the FTC's power grab, and we expect your complete cooperation with our requests.

The FTC's proposed rule makes a broad preliminary finding that non-compete clauses are inherently "exploitative and coercive" for most employees "because they take advantage of

¹ See Non-Compete Clause Rule, 88 Fed. Reg. 3482, 3482-83 (Jan. 19, 2023) (to be codified at 16 C.F.R. pt. 910); cf. Eugene Scalia, *The FTC's Breathtaking Power Grab Over Noncompete Agreements*, WALL ST. J. (Jan. 12, 2023) ("The Federal Trade Commission's ban on noncompete agreements may be the most audacious federal rule ever proposed.").

² 88 Fed. Reg. at 3485.

³ See, e.g., Svetlana Gans & Eugene Scalia, *The FTC Heads for Legal Trouble*, WALL ST. J. (Aug. 8, 2022); Commissioner Christine S. Wilson, *Marxism and Critical Legal Studies Walk into the FTC: Deconstructing the Worldview of the Neo-Brandeisians*, at 26-28 (Apr. 8, 2022); see also Letter from Rep. Jim Jordan, Ranking Member, H. Comm. on the Judiciary, et al., to Hon. Lina Khan, Chair, FTC, et al., at 1 (July 29, 2021) [hereinafter "FTC Partisan Actions Letter"]; Letter from Rep. Jim Jordan, Ranking Member, H. Comm. on the Judiciary, & Rep. Darrell Issa, Ranking Member, Subcomm. on Courts, Intellectual Prop. & Internet, to Hon. Lina Khan, Chair, FTC, at 1 (Sept. 2, 2021); Letter from Rep. Jim Jordan, Ranking Member, H. Comm. on the Judiciary, to Hon. Lina Khan, Chair, FTC, at 1 (Aug. 25, 2022).

unequal bargaining power between employers and workers.”⁴ As Commissioner Wilson noted in her dissent from the proposed rule, the Biden FTC’s approach is “literally limitless.”⁵ Taken to its logical conclusion, any agreement between an employer and certain employees could be “exploitive and coercive.”⁶

The FTC’s proposed rule would have significant adverse effects on the American economy.⁷ It would nullify current—and ban future—voluntary non-compete agreements between employers and employees.⁸ By the FTC’s own estimates, the rule would wipe out roughly thirty million existing non-compete agreements,⁹ and while the FTC highlights estimated benefits of the rule, it makes little effort to quantify the costs.¹⁰ Commentators have concluded on numerous occasions that the balance of the costs and benefits of non-compete agreements is inconclusive,¹¹ but the Biden FTC seems to think it somehow knows best. The rule exceeds its authority as delegated by Congress and would have severe consequences for American workers and the American economy.

First, the FTC has no authority in federal statute to initiate this type of rulemaking. The FTC Act prohibits “[u]nfair methods of competition,”¹² and separately provides the agency with limited power to make procedural rules.¹³ However, the FTC Act never gave the agency the authority to issue substantive rules that classify a common economic practice as an “unfair method of competition,” as the Biden FTC seeks to do here.¹⁴

Second, and relatedly, the Biden FTC lacks the “clear congressional authorization” required to adopt this sweeping rule. Under the Supreme Court’s explanation of the “major questions doctrine” in *West Virginia v. EPA*, an executive agency needs a clear authorization

⁴ 88 Fed. Reg. at 3502.

⁵ Dissenting Statement of Commissioner Christine S. Wilson: Regarding the Notice of Proposed Rulemaking for the Non-Compete Clause Rule, at 5 (Jan. 5, 2023).

⁶ *Id.*

⁷ See, e.g., Jeremiah Ludwig, *How An FTC Ban On Non-Compete Agreements Could Keep Pizza Delivery Guys Shuttling Pies For Life*, THE FEDERALIST (Jan. 25, 2023) (“If lawmakers want to improve opportunities for workers, they must carefully consider the effects this ban would have in the long term. . . . Some employees may celebrate if the FTC bans non-compete agreements — but future workers will pay the price.”).

⁸ See 88 Fed. Reg. at 3482–83. The word “worker” includes independent contractors. See *id.* at 3482–83.

⁹ *Id.* at 3485.

¹⁰ *Cf. id.* at 3493.

¹¹ See, e.g., John M. McAdams, FTC, *Non-Compete Agreements: A Review of the Literature*, SSRN at 20 (2019).

¹² 15 U.S.C. § 45(a)(1).

¹³ *Id.* § 46(g); see Thomas W. Merrill, *Antitrust Rulemaking: The FTC’s Delegation Deficit*, CTR. FOR THE STUDY OF THE ADMIN. ST., at 15 (2022).

¹⁴ See, e.g., Dissenting Statement of Commissioner Christine S. Wilson, *supra* note 5, at 10; Noah J. Phillips, *Against Antitrust Regulation*, AM. ENTER. INST. 3 (2022); Maureen K. Ohlhausen & James F. Rill, *Pushing the Limits? A Primer on FTC Competition Rulemaking*, in RULEMAKING AUTHORITY OF THE US FEDERAL TRADE COMMISSION 156 (Daniel A. Crane ed., 2022); Alden Abbott, *Why FTC Competition Rulemaking Likely Will Fail*, TRUTH ON THE MKT. (July 5, 2022); Thomas W. Merrill & Kathryn T. Watts, *Agency Rules with the Force of Law: The Original Convention*, 116 HARV. L. REV. 467, 504–05 (2002).

from Congress to issue a regulation that has great “economic and political significance.”¹⁵ The FTC recently told this Committee that it “is mindful of the Court’s decision and the constraints it articulated.”¹⁶ However, this rulemaking shows a complete disregard for the Court. And despite this Committee’s asking the FTC in prior oversight to explain how each of its expected rulemakings is consistent with the Court’s decision in *West Virginia v. EPA*,¹⁷ the FTC made no effort to explain how this proposed rule is consistent with that decision. Perhaps that is because the agency could not do so.

Indeed, Commissioner Wilson rightly explained in her dissenting statement why the proposed rule likely raises “a major question.”¹⁸ Congress has debated and failed to enact a federal ban on non-compete agreements on several occasions, and now the agency “is trying to ‘work around’ the legislative process to resolve a question of political significance.”¹⁹ The proposed rule would undoubtedly “regulate a significant portion of the American economy,” and it “intrude[s]” on a topic that has been²⁰ and should be governed by state law. Courts are thus likely to find that the rule is a major question.²¹ And because Congress did not clearly authorize the FTC to adopt a rule that defines a business practice as an unfair method of competition, courts will likely conclude that the rule violates the major questions doctrine.²²

In addition to being unlawful, the FTC’s proposed rule would radically restructure the American economy that has made our nation the engine of prosperity and growth worldwide. The regulation would undermine the rule of law by invalidating tens of millions of existing contracts to which employers and employees voluntarily agreed.²³ The rule is also inconsistent with tenets of federalism because it sets a one-size-fits-all approach that would outlaw practices that forty-seven states have deemed to be legal.²⁴ In addition, the rule may make our country less competitive and hurt workers because, as the Biden FTC seems to concede, the rule could lead to less employee training, less investment, and fewer new jobs.²⁵

The proposed regulation is a chilling example of the Biden FTC’s radical belief that it has the power to regulate wide swaths of the economy based on a subjective view of its “unfair methods of competition” authority. As recently as 2015, the FTC issued a bipartisan statement explaining it would enforce the FTC Act’s ban on unfair methods of competition in a manner

¹⁵ See Letter from Rep. Jim Jordan, Ranking Member, H. Comm. on the Judiciary, to Hon. Lina Khan, Chair, FTC, at 1 (Nov. 1, 2022) (quoting *West Virginia v. EPA*, 142 S. Ct. 2587, 2608–09 (2022)) [hereinafter “Major Questions Letter”]; see also *West Virginia*, 142 S. Ct. at 2608–09.

¹⁶ Letter from Lina M. Khan, Chair, FTC, to Hon. Jim Jordan, Chairman, H. Comm. on the Judiciary, at 1 (Jan. 11, 2023) (on file with Committee staff).

¹⁷ See Major Questions Letter, *supra* note 15, at 3.

¹⁸ See Dissenting Statement of Commissioner Christine S. Wilson, *supra* note 5, at 11–12.

¹⁹ *Id.* at 12 (citation omitted).

²⁰ *Id.*

²¹ *Id.*

²² *Id.*; cf. Alden Abbott, *The FTC’s NPRM on Noncompete Clauses: Flirting with Institutional Crisis*, TRUTH ON THE MKT. (Jan. 10, 2023); Scalia, *supra* note 1.

²³ See Dissenting Statement of Commissioner Christine S. Wilson, *supra* note 5, at 12.

²⁴ *Id.*; see also Russel Beck, *Employee Noncompetes: A State-by-State Survey*, BECK REED RIDEN LLP (Nov. 21, 2022).

²⁵ See Scalia, *supra* note 1; see also 88 Fed. Reg. at 3488–89, 3493.

grounded in the rule of law and faithful to traditional antitrust analysis.²⁶ In the first meeting after Chair Khan was sworn in, the Biden FTC rescinded this established bipartisan approach.²⁷ In its place, the FTC has adopted a broad, malleable approach untethered from economic reality or existing antitrust law that creates tremendous uncertainty for employers and employees.²⁸

The Biden FTC's proposed rule on non-compete clauses shows the radicalness of the so-called "hipster" antitrust movement that values progressive outcomes over long-held legal and economic principles. Chair Khan has asked Congress to give the FTC more resources, and she has said that she "take[s] seriously the importance of ensuring that agency funds are put to the most effective use."²⁹ That commitment to sound stewardship is inconsistent with using appropriated funds for a rulemaking that violates core antitrust principles, exceeds the FTC's delegated authority, and is likely unlawful. Accordingly, to allow the Committee to conduct oversight of the FTC's unprecedented actions, please provide the following material:

1. All documents and communications referring or relating to the conclusion that the FTC has the legal authority to engage in this rulemaking, including any description of how to reconcile this rulemaking with the Supreme Court's decision in *West Virginia v. EPA*.
2. All documents and communications referring or relating to any analysis of the FTC's litigation risk associated with this rulemaking.
3. All documents and communications referring or relating to the FTC's economic analysis associated with this rulemaking, including the rule's costs and any decisions about how much or how little weight the FTC should give any study, source, or other piece of evidence.
4. All communications between the FTC and any outside parties referring or relating to this rulemaking, including, but not limited to, the Executive Office of the President.
5. The total number of hours that the FTC has spent, and expects to spend, on the rulemaking.
6. The number of employees, contractors, advisors, or consultants—paid or unpaid—who have worked on or contributed to the rulemaking. Please include a list of anyone affiliated with the FTC in any way who plays, has played, or is expected to play a

²⁶ See generally Statement of the Federal Trade Commission On the Issuance of Enforcement Principles Regarding "Unfair Methods of Competition" Under Section 5 of the FTC Act, at 1 (Aug. 13, 2015).

²⁷ See generally Statement of the Commission On the Withdrawal of the Statement of Enforcement Principles Regarding "Unfair Methods of Competition" Under Section 5 of the FTC Act (July 9, 2021); see also FTC Partisan Actions Letter, *supra* note 3, at 3.

²⁸ Dissenting Statement of Commissioner Christine S. Wilson: Regarding the "Policy Statement Regarding the Scope of Unfair Methods of Competition Under Section 5 of the Federal Trade Commission Act," at 2 (Nov. 10, 2022).

²⁹ Testimony of Chair Lina M. Khan Before the House Appropriations Subcommittee on Financial Services and General Government, at 1 (May 18, 2022).

supervisory role for any aspect of the rulemaking. In addition to providing titles, please briefly describe the type of supervision provided.

7. An approximation of the amount of appropriated funds spent to date on this rulemaking.
8. A list of any objectives that have been deprioritized or delayed because of the rulemaking.


Please provide this information as soon as possible but no later than 5:00 p.m. on February 28, 2023.

The Committee on the Judiciary is authorized by Rule X of the Rules of the House of Representatives to conduct oversight of and legislate on matters relating to the “[p]rotection of trade and commerce against unlawful restraints and monopolies.” If you have any questions about this matter, please ask your staff to contact Committee staff at (202) 225-6906. Thank you for your attention to this matter.

Sincerely,



Jim Jordan
Chairman



Darrell Issa
Chairman
Subcommittee on Courts, Intellectual
Property and the Internet



Thomas Massie
Chairman
Subcommittee on the Administrative State,
Regulatory Reform, and Antitrust



Scott Fitzgerald
Member of Congress

cc: The Honorable Jerrold L. Nadler, Ranking Member