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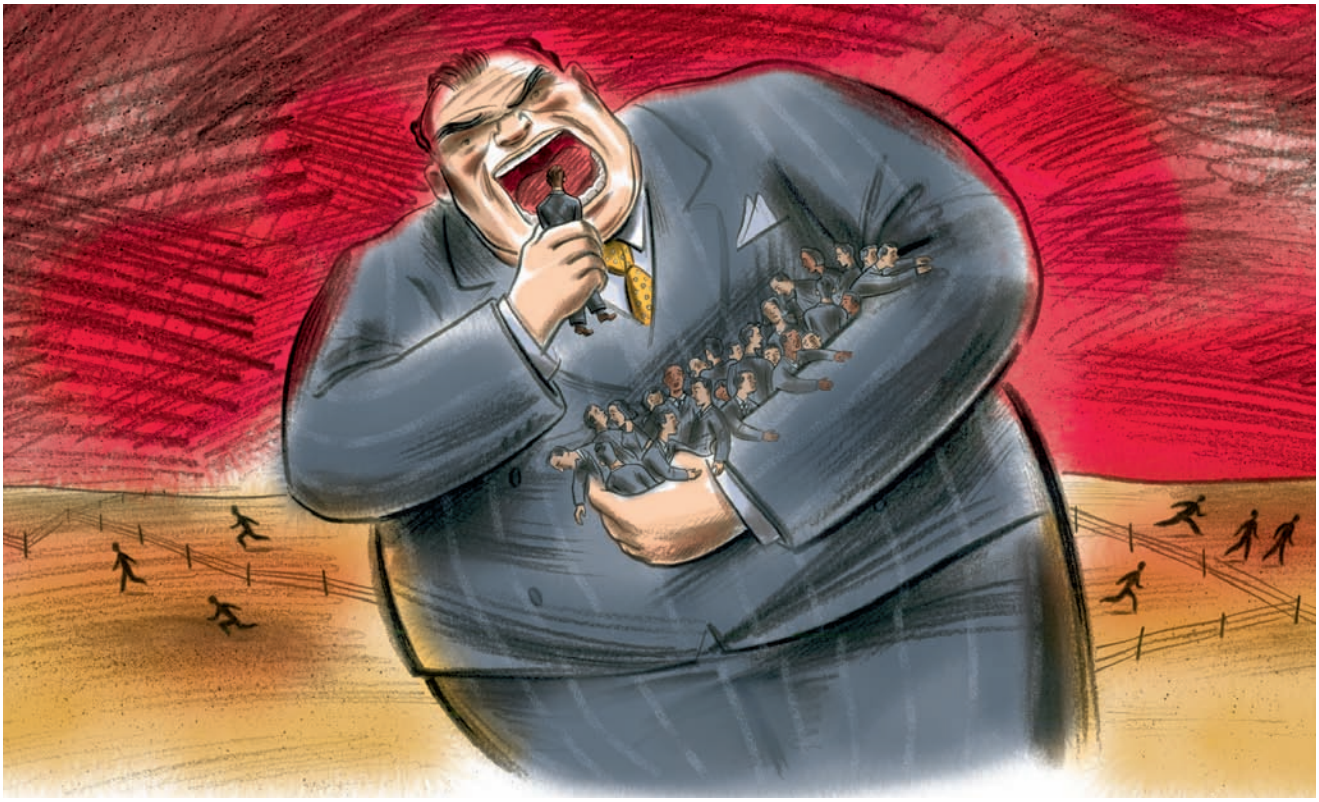

KILLING THE COMPETITION

How the New Monopolies Are Destroying Open Markets

By Barry C. Lynn

SOME ASSEMBLY REQUIRED

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KILLING THE COMPETITION

How the new monopolies are destroying open markets

By Barry C. Lynn

Fear, in any real market, is a natural emotion. There is the fear of not making a sale, not landing a job, not winning a client. Such fear is healthy, even constructive. It prods us to polish our wares, to refine our skills, and to conjure up—every so often—a wonder.

But these days, we see a different kind of fear in the eyes of America's entrepreneurs and professionals. It's a fear of the arbitrary edict, of the brute exercise of power. And the origins of this fear lie precisely in the fact that many if not most Americans can no longer count on open markets for their ideas and their work. Because of the overthrow of our antimonopoly laws a generation ago, we instead find ourselves subject to the ever more autocratic whims of the individuals who run our giant business corporations.

The equation is simple. In sector after sector of our political economy, there are still many sellers: many of *us*. But every day, there are fewer buyers: fewer of *them*. Hence, they enjoy more and more liberty to dictate terms—or simply to dictate.

Over the past four years of financial collapse, many of us have come to view markets as a fantastical scam: a giant mechanism geared to transfer our hard-earned dollars into the hands of a few select bankers. And when it comes to the Wall Street markets we rely on to trade our equities and debt and commodities, this sentiment is not all wrong.

But as every previous generation of Americans understood, a truly open market is one of our fundamental democratic institutions. We construct such markets to achieve some of our most basic rights: to deal with whom we choose, to work with whom we choose, to govern our communities and nation as we (along with our neighbors) choose.

And so, as every previous generation of Americans also understood, monopolization of our public markets is first and foremost a political crisis, amounting to nothing less than the reestablishment of private government. What is at stake is the survival of our democratic republic.

This rush back to the feudal past is nowhere more evident than in that region of California we have so long viewed as the incubator of our future.

Until recently, few places in the world could boast of markets as open as those of Silicon Valley. Yes, large corporations thrived here for decades. But true denizens of the Valley would rarely let themselves get caught inside those walls. Why should they? Their skills were portable, venture capital was abundant, and California refused to enforce the "non-compete" agreements that tech

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Illustrations by Tim Bower

firms elsewhere often used to control their employees.

It was in Silicon Valley that America's entrepreneurs seemed to rediscover their roots—or rather, their primal rootlessness. Serial founders staked out tech venture after tech venture, in much the way Daniel Boone once cleared homesteads as he wandered from Carolina to Kentucky to Missouri. And behind these pioneers swarmed freelance engineers and cowboy coders, hardly distinguishable from the first-generation entrepreneurs and soon in direct competition with them.

These days the Valley is once again abuzz. Headlines report bulging wallets and a smorgasbord of new perks. Venture capitalists hum down Route 101, and angel investors lurk and listen in the bars. But instead of a disruptive melee like that of the late 1990s, with its diversity of players and voices, the overwhelming tendency today is a further consolidation of power by the already powerful.

During the past decade, a few giants have managed to fence in market after market for hardware, software, and content. Some did so simply by buying up their competitors. Oracle CEO Larry Ellison once said that acquiring another company was "a confession that there's a failure to innovate." But Ellison himself decided to opt for the more reliable profits that come from buying one's competitors, which in Oracle's case included PeopleSoft, Siebel, BEA, Sun Microsystems, and more than sixty other firms. During the same period, Google—even while branding itself as the dreamiest of inventors—vacuumed up close to a hundred companies, including such core components as YouTube, DoubleClick, and ITA.

John D. Rockefeller, whose Standard Oil ruled the energy industry for decades, liked to present his predations as acts of altruism. "We will take your burdens," he would tell his target. "We will unite together and build a substantial structure on the basis of cooperation." But all understood perfectly the ultimatum hidden in the honeyed words: Join or be crushed.

So, too, today's lords of the Valley, who enjoy the power to choreograph competition among the latest generation of upstarts and then buy whom they please, when they please. Yet this de facto license to govern a trillion-dollar industry—and with it, entire swaths of the American economy—appears to have left these high-tech headmen unfulfilled. Or so we learned when the Justice Department complained in 2010 that senior executives at Apple, Google, Intel, Pixar, and two other corporations had "formed and actively managed" an agreement that "deprived" the engineers and scientists who work for them of "access to better job opportunities."

Even in those reaches of society long accustomed to the rule of the few, the fact that some of the biggest and the richest had agreed not to poach one another's workers managed to shock. In an editorial, the *New York Times* wondered "What Century Are We In?" Yet in the Valley itself, from those most directly affected, we've heard only the rarest of whimpers. The anger is there. But it's tamped down by fear.

To see how these employees react to their bosses getting busted for running a labor cartel, I recently toured Apple's hometown of Cupertino, California. I strolled the Infinite Loop, the road encircling the six edifices at the heart of the empire. I wandered the side streets lined with low-slung buildings adorned with discreet Apple logos. I ambled down North De Anza Boulevard to the center of town. All around I saw Apple employees, easily identifiable by the white badges dangling from their necks or clipped to their pants pockets. And I approached many of them to ask what it felt like to work in the company's town.

An older fellow named Steve, with scraggly white hair, told me he had read all about the settlement, and that the news had come as no surprise. "They treat us like dirt," he said before unleashing a string of curses. "Market capitalism should be a two-way street, no? If they get to make us compete against one another, then they too should have to compete." At this point Steve walked off. He'd like to talk more, he said. But his contract renewal was coming up, and someone might see him with me.

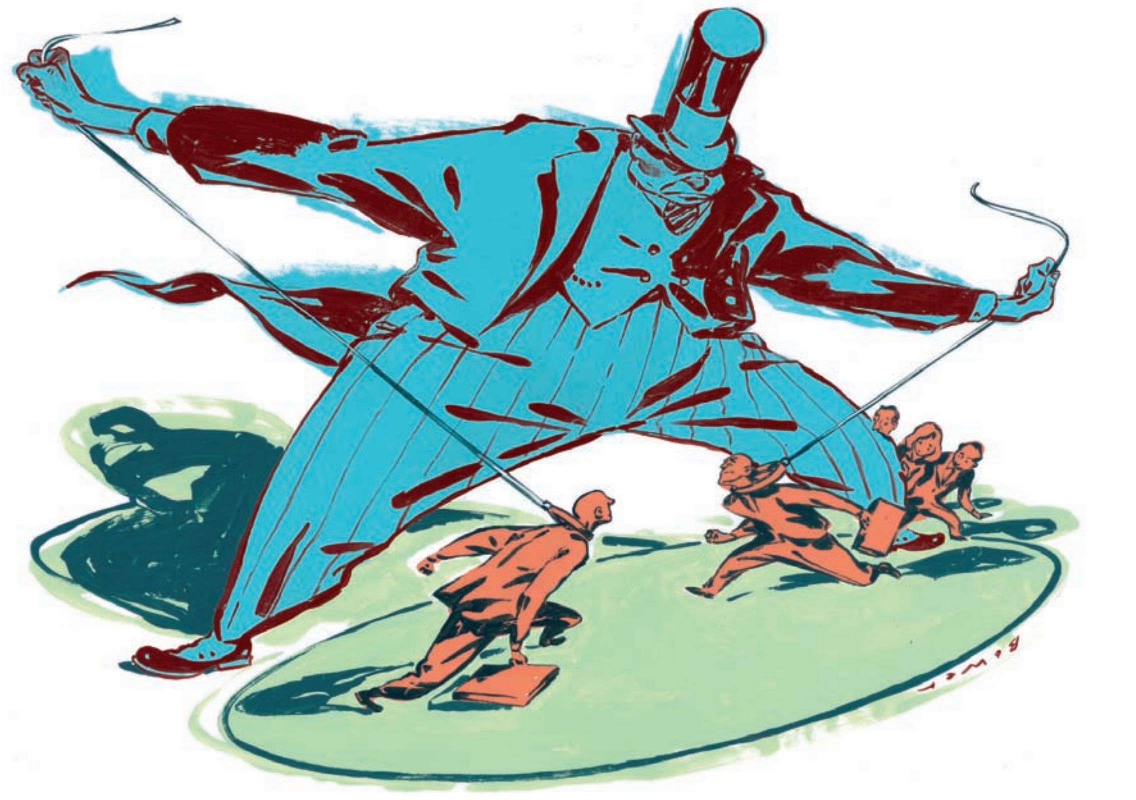
At a crossroads just south of Apple headquarters, in front of a Valero gas station, I caught up with John, who was speed-walking to the dentist. "Of course I don't like it," he told me, and proceeded to recount the facts of the settlement in detail. "But what can we do? It's not like anyone ever dares to speak about it. I mean, they actively encourage us not to talk to one another. It's all taboo."

Outside the Bagel Street Café, in the lines for the shuttle buses that carry employees north to San Francisco, at BJ's Restaurant and Brewhouse, I come upon the same urge to talk, followed by the same mumbled apologies as prudence takes hold. Sometimes the fear kicks in almost instantaneously. One employee actually spun on his heel, jumped back into his pickup truck, and sped away, though not before hissing that "even if I did know anything, I wouldn't ever be able to talk about it."

Eventually I did find one employee willing to speak up. Last spring, a San Francisco law firm announced plans to file a class-action lawsuit against Lucasfilm and the six corporations named in the DOJ settlement. Such lawsuits require at least one person to publicly represent the class, and finally a former Lucasfilm software engineer named Siddarth Hariharan stepped forward. After some back-and-forth with his lawyers, Hariharan (who also goes by the name Neil Haran) agreed to discuss how the masters of these estates treat their tenants.

Over lunch in San Francisco, Hariharan, dapper in a stylish sport coat, starts by telling me all the reasons he loved his job, especially the opportunity to take part in sprawling, complex projects. Sure, the pace was grinding, the hours crazy. One team, he recounts, worked for 110 hours per week for nine months straight. But "everyone believed they were making something important."

Hariharan says his attitude began to sour after Lucasfilm completed a particularly ambitious project. The very next day, he says, shaking his head, executives came in and “fired almost everyone.” These were employees who hadn’t had a day off in months. “People were running around the office,” says Hariharan, whose own job was not affected. “They were running around crying. It was a bad sight.”



He pauses, and looks at me. “Then, on top of that, I hear they were conspiring to lock people in a box?” It was the allegations about the labor cartel, Hariharan says, that angered him sufficiently to join the lawsuit. “It’s simple,” he says. “If you do something bad, you should be punished.”

Many entrepreneurs and workers in Silicon Valley want to speak out, Hariharan believes. Many would love to restore the open job market of the early 1990s. But for most, “it would be career suicide.” Even Hariharan might have thought twice if he hadn’t already established himself as an independent entrepreneur. “I’m not rich,” he says, “but I never have to work for anyone else again. So I felt I had to do something. I had to stand up for those who couldn’t.”

No matter how adept Silicon Valley CEOs have become at corralling the men and women who actually make what they sell, they are still relative beginners when it comes to manipulating fear for profit. To get a sense of what the future may hold for America’s computer engineers—and, for that matter, our teachers, lawyers, and doctors—I recently drove through a notch in the Allegheny Mountains into West Virginia’s Sweedlin Valley. There I visited with poultry farmers who supply birds to a plant in Moorefield owned by the Brazilian food giant JBS. (The largest meat processor in the world, JBS operates the plant under the name Pilgrim’s.)

The broiler industry was one of the first in which the generation of monopolists unleashed by Ronald Reagan succeeded in replacing open markets with vertically integrated systems designed to be controlled by a single local buyer. The men who rule America’s chicken-processing plants have therefore had decades to master the art of setting individual farmers—who still own the land, equipment, and liabilities—against one another. And the goal of this competition is not merely to extract the most work from each individual, but also the most capital.

The concept of such competitions—or “tournaments,” as the industry calls them—is generally credited to the economist Edward Lazear, who served as one of George W. Bush’s top advisers and now teaches at the Stanford Graduate School of Business. The idea, first laid out in a 1981 paper titled “Rank-Order Tournaments as Optimum Labor Contracts,” is straightforward enough. Rather than pay all workers at the same rate for any particular task, Lazear wrote, why not set up a “labor market contest,” in which those who produce more also get paid more per task or per piece? Such a system of reward (and, for those at the bottom, punishment) would, he claimed, increase the incentive to work harder.

The problem with Lazear’s theory becomes clear when we recall some of the basic characteristics shared by all real markets. Most important is an equality between the seller and the buyer, achieved by ensuring that there are many buyers as well as many sellers. Second is transparency. Everyone sees the quantity and quality of the product on offer, and the price at which each deal is done. A third characteristic is a tendency to deliver egalitarian outcomes. On any given day, once the supply of a product has been hauled to market and appraised, all sellers receive roughly the same price per unit. Offer a seller less than the prevailing price, and you walk away empty-handed. Demand more from buyers, and your goods sit untouched.

Lazear repeatedly uses the term "market" to describe his tournaments. But his theory has almost nothing in common with how open markets actually function. For starters, he assumes that the sellers of goods and services must have, for all intents, nowhere else to go. A 2003 study of tournament theory by economists Tom Coupé, Valérie Smeets, and Frédéric Warzynski, which builds explicitly on Lazear's work, makes this point painfully clear. "Tournaments take place," the authors explain, "in the context of an internal labor market with no explicit role for outside options."

The political aim of tournaments, in other words, is exactly opposed to that of real markets. Citizens structure markets, first and foremost, to protect individuals from massed capital. Lazear's tournaments are designed to maximize return *to capital.* They do so precisely by setting individual citizens against each other, like cocks in a pit.

This sounds bad enough. But when I sit down with poultry grower Mike Weaver in his snug rambler to learn how such tournaments work in practice, he seems astonished at my naïveté. "That's not even the half of it," he begins.

Weaver, a former fish and game officer who can raise flocks as large as 94,000 birds on his farm, slides a "settlement sheet" across the table. It records the amounts JBS paid to seventeen farmers who delivered their flocks to the plant on one particular day. The company, he shows me, paid the top-ranked chicken grower 63 percent more *per pound* than it paid the bottom-ranked grower. "Naturally," he says, "this sort of differential will tend to make a man work harder to stay ahead of the next fella."

What makes the system truly insidious, Weaver adds, is that the whole competition takes place without any set standards. "There is no baseline," he explains. For one thing, JBS requires the farmers to procure from the company itself all the chicks they raise and all the feed they blow into the houses. Yet the quality of the chicks and the feed can differ tremendously, from day to day and from farm to farm.

What's more, the full-grown chickens are weighed after being trucked off the farm. The farmer is not allowed to see whether the figure on the scale is accurate—nor can he tell whether the chickens he's being paid for even came from his farm. He is simply expected to take the money he is given and say thank you.

As much as he resents being forced into a gladiatorial relationship with his neighbors, Weaver says an actual tournament with a level playing field would be "far better than what we have now." Under the current regimen, the processors "don't just force us to compete against each other. They rig the competition any way they like. They can be as sloppy as they wish or as manipulative as they wish. We are entirely subject to the company." After a moment, Weaver modifies his statement. "Really, we are entirely subject to the foreman at the plant, to the technician who keeps a watch on us. Those men can make us and they can break us, and they know it."

His face reddens. "The market in this valley is very simple to understand. They give preferential treatment to those who kiss their ass."

For the local community, the outcome of this arrangement can be devastating. Traditionally, farmers have tended to join politically with their neighbors. But Weaver, who heads the local poultry-growers association, says nowadays many farmers end up viewing their neighbors as rivals. Most of the 400 or so farmers who sell into the Moorefield plant "try to resist such feelings," he says. But over time, the system wears them down.

It also makes them highly reluctant to speak out in public. "Most of the farmers are afraid to say boo for fear the companies will take away their chickens," Weaver tells me. The processors "know we have our house and our land in hock to pay for the equipment. They know we are honorable people who won't walk on a promise. And they exploit this."

Weaver has learned this from bitter experience. In 2010, he spoke at two Department of Agriculture hearings on the consolidation of the packing and processing industries. Ever since, he tells me, the foremen have rated his chickens near or at the bottom, after years of ranking them near the top. This costs him thousands of dollars per flock.

"I can't prove a thing," Weaver says when I ask if there's any way to verify that the company is retaliating against him for speaking out. "That's the beauty of the system. They know everything and we know nothing. They get to decide what's real."

Like Hariharan, Weaver dares to talk openly only because he possesses a measure of financial independence. "I can speak because I don't need the company," he says. "They can cut me off tomorrow and I have enough saved up so I won't go flat-out bankrupt." But this is not true for many of the farmers who sell chickens to the Moorefield plant, he adds. "They have nowhere else to go. They have to take what they're given."

The revolutionary achievement of the American people two centuries ago was not merely to establish an independent republic. It was to prove that every citizen in that republic could be independent, economically as well as politically.

This vision was not atomistic. It was not based solely, as libertarians like to claim, on a realization of individual rights. Instead, the belief was that self-conscious, self-reliant citizens would come together as equals and use their collective power to protect their communities, their nation, and themselves.

The practical challenge was to enable citizens to exchange their goods, ideas, and labor with one another as freely as possible. And so Americans mastered the political art of making public markets, and used their new legislatures to closely restrict trading companies, industrial estates, and other forms of private corporate government.

These open markets swiftly proved to be as fundamental to our democracy as the ballot box. They buttressed our system of checks and balances, both by distributing power among many sellers and many buyers and by promoting a more equitable distribution of wealth. They helped to foster open debate and prodded citizens to speak out against competitors who bent or broke the rules.

Right from the beginning, however, these markets proved hard to keep.

George Washington's administration was barely a year old when Alexander Hamilton, the nation's first treasury secretary, attempted to use a government bailout of speculators to concentrate power in banking estates controlled by his friends and allies. (Hamilton later touched off the Whiskey Rebellion with a tax that steered the distilling business away from yeoman farmers to local landlords.) And for more than half a century after the Civil War, we lost many of our markets entirely, as a small clique of men seized control of the new railroad and telegraph systems, then consolidated their power over many other important sectors of the economy.

By 1913, the apex of the plutocratic era, President Woodrow Wilson was decrying the rule of fear that had been imposed on the American entrepreneur and worker. "Some of the biggest men in the United States, in the field of commerce and manufacture, are afraid of somebody, are afraid of something," Wilson said. "They know that there is a power somewhere so organized, so subtle, so watchful, so interlocked, so complete, so pervasive, that they had better not speak above their breath when they speak in condemnation of it."

Yet in two great pushes—during the early years of the Wilson Administration, and then during the Second New Deal in the 1930s—the American people succeeded in restoring many of the open markets we had lost. Even as the lords of industry and the prophets of socialism joined hands to defend the "scientific" rationalization of productive activities, the people forced their representatives to enact law after law designed to disperse power.

Adapting the principles of eighteenth-century republicanism to the industrial landscape of twentieth-century America proved to be remarkably easy. Where there was no compelling reason to concentrate power—as in retail, agriculture, services, and light manufacturing—the goal now was to promote a wide distribution of both property and opportunity.

In practice, this required not merely heading off further monopolization, but unwinding many existing powers. The legislation used to achieve these ends—including the Packers and Stockyards Act and the fair-trade laws of the 1930s, which allowed manufacturers to set minimum retail prices for their goods—are seldom recalled today. However, their long-term impact was profound. In the 1920s, the five largest beef packers controlled upward of 70 percent of the U.S. market; by 1975, that figure had dropped to roughly 25 percent. In 1933, the four largest grocery chains controlled 27 percent of the market; by 1982, that figure had dropped to 16 percent.

Where some concentration of capacity and control was viewed as necessary—as in heavy industry—the goal was not to break up the monopolies. Instead, markets were restructured to ensure that at least three or four companies competed to make any particular product. In 1945, for instance, the government forced Alcoa to share its aluminum monopoly with Kaiser and Reynolds. This also meant restraining the power of the capitalist over these quasi monopolies, mostly by reinforcing the rights of the worker, the engineer, the local community, and the small investor.

This bottom-up reconstruction of our economy was one of the great political achievements of the twentieth century. At a time when every other industrial nation of the world was engineering corporatist structures that tended toward authoritarianism, the United States went in the opposite direction. It was, arguably, a second American Revolution.

By the 1970s, however, our open markets were under siege once again. And this time, the assault was more subtle, and camouflaged by myth, euphemism, and outright falsehood. The generation of Rockefeller and Morgan had acknowledged its power openly and defended that power on its merits, such as they might be. Yes, they had centralized control over entire industries, and yes, they ruled their realms as despots. But they claimed to wield such power for one purpose only: to organize production and trade more *efficiently*. And

"This book stands way above anything written on the present economic crisis."

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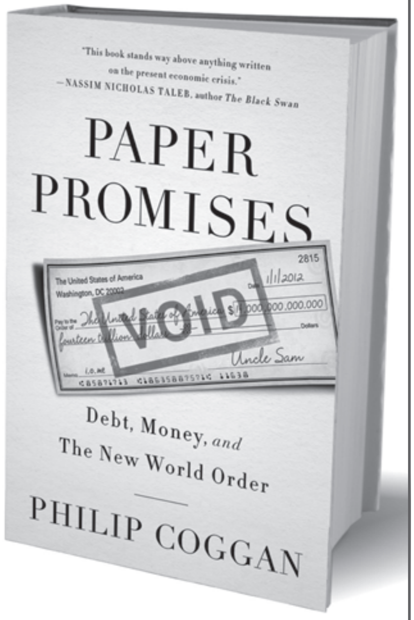
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wasn't efficiency a great benefit to the commonweal? Such honest impudence, in turn, made it easier for citizens to identify and beat back the political threat.

Today, our overlords not only refuse to defend the power they hold—they deny that it is even possible for any American to accumulate such power. And to make such an absurd claim stick, they (or the more politically sophisticated of the academic economists in their employ) have undermined our language itself. Their most impressive act of lexical legerdemain was the coinage of various misnomers, some so audacious as to be worthy of Orwell's Ministry of Truth. Corporate monopoly? Let's just call that the "free market." The political ravages of corporate power? Those could be recast as the essentially benign workings of "market forces."

Even more dangerous was the transformation of *efficiency* into the highest economic good. For centuries, dating back to the British East India Company's promise to manage our tea trade for us, Americans have used antimonopoly action and law to protect our liberties as producers. Along the way, we learned to distrust most talk of efficiency as a justification for reducing the number of buyers. It was this very sentiment that inspired Justice Louis Brandeis to celebrate the political and economic virtues of "friction" in a 1926 Supreme Court decision.

Little more than a generation ago, however, economists of the "Chicago School" began to publish studies claiming that the enforcement of our antimonopoly laws was harming the interests of that defenseless figure, the American consumer, by promoting "wasteful" competition. After Ronald Reagan took office in 1981, his new head of antitrust enforcement, William F. Baxter, swiftly abandoned efforts to promote competition and promised instead a policy "based on efficiency considerations." The goal now was to promote the "welfare" of the consumer, theoretically by increasing his or her access to cheap goods.

No gun was ever fired, no protest ever mounted, no direct attack on our antimonopoly laws was ever unleashed. Yet the most fundamental purpose of these fundamental laws—to protect the liberty of the citizen and to ensure the safe distribution of power—was flipped on its head by the innocent-sounding substitution of a few key terms. And in the three decades since, the impact of this rhetorical sleight of hand has only grown. The "consumer welfare" framework has provided its creators with exactly the cover they need to write their efficiency argument straight into the mainstream of American law and to erect their private corporate governments right in the town square of the American political economy.

To understand the true architecture of power in our America of 2012, we must set down the hymnals of the economists and speak directly to those of us who strive every day to make, to grow, to build, to serve—but who find that some immense power blocks their way.

Take the craft-beer brewer I met recently in Chicago. Worshipped by his ever-thirsty fans, he grinned proudly for a photo shoot as I watched from the sidelines. But in the privacy of the hotel hallway, he whispered about how Anheuser-Busch InBev is slowly strangling his company. The multinational colossus controls much of the beer distribution in the United States and has a huge influence over who rides those rails. "When I want to get my beer on a store shelf, I don't call the retailer," he explains. "I have to beg ABI."

The backstory in brewing is much the same as in Silicon Valley. In 1978, the production of beer in America was divided among forty-three firms, with the biggest controlling only a quarter of the market. Today, more than 1,750 companies make beer in this country. But ABI and MillerCoors have locked down more than 90 percent of the U.S. market. This gives them the power to jack up prices almost at will. More important, it gives this cadre of capitalists the ability to decide which American craft brewers thrive and which don't.

Or take the advertising executive who recently told me about her decision to ditch her career and become a teacher. Over the course of a decade, this executive steadily accumulated responsibility as she moved from Wunderman to Omnicom to Young & Rubicam, confident she was destined for a corner office. Then, a couple of years ago, she hit a wall. "Every place I wanted to work was already owned by WPP," she said, referring to the British giant that controls Y&R and many other firms. "And I realized that to move, I'd need the approval of some grand poobah."

Again we encounter the familiar story. Well into the 1980s, power on Madison Avenue was dispersed among more than a dozen large agencies and scores of vibrant smaller firms. But over the past thirty years, four sprawling holding companies—WPP, Interpublic, Omnicom, and Publicis—swallowed up almost the entire industry. WPP alone controls more than 300 ad agencies, including such once iconic shops as the Grey Group, Ogilvy & Mather, and Hill & Knowlton. And the four giants vigorously shore up this power with strict non-compete employment contracts.

You'll hear the same thing if you talk to the musicians who find themselves subject to the caprices of Live Nation. Or if you talk to the legions of doctors watching helplessly as hospital corporations begin to regulate medical services across entire regions. Where only a few short years ago these citizens controlled their own destinies, they wake today to find themselves the de facto chattel of some domestic (or increasingly, foreign) lord.

But perhaps the best way to understand the true structure of America's political economy in the twenty-first century is to talk to some of the people who publish, edit, and write books in America.

These days, most articles on the book industry focus on technology. The recent death of the retailer Borders is depicted as a victory of Internet sales over brick-and-mortar stores, the e-book market as a battle between the Kindle e-reader and the iPad. But if we look behind the glib narrative of digitization, we find that a parallel revolution has taken place, one that has resulted in a dramatic concentration of power over the individuals who work in this essential, surprisingly fragile industry.

A generation ago, America's book market was entirely open and very vibrant. According to some estimates, the five largest publishers in the mid-1970s controlled only about 30 percent of trade book sales, and the biggest fifty publishers controlled only 75 percent. The retail business was even more dispersed, with the top four chains accounting for little more than 10 percent of sales. Today, a single company—Amazon—accounts for more than 20 percent of the domestic book market. And even this statistic fails to convey the company's enormous reach. In many key categories, it sells more than half the books purchased in the United States. And according to the company's estimates, its share of the e-book market, the fastest-growing segment of the industry, was between 70 and 80 percent in 2010. (Its share of the online sale of physical books is roughly the same.)

Not surprisingly, then, we find the same sort of fear among our book publishers as we do among the chicken farmers of the Sweedlin Valley. I recently sat down with the CEO of one of the biggest publishing houses in America. In his corner office overlooking a busy Manhattan street, he explained that Amazon was once a "wonderful customer with whom to do business." As Jeff Bezos's company became more powerful, however, it changed. "The question is, do you wear your power lightly?" My host paused for a moment, searching for the right words. "Mr. Bezos has not. He is reckless. He is dangerous."

Later that same day, I spoke with the head of one of the few remaining small publishers in America, in a tattered conference room in a squat Midtown office building. "Amazon is a bully. Jeff Bezos is a bully," he said, his voice rising, his cheeks flushing. "Anyone who gets that powerful can push people around, and Amazon pushes people around. They do not exercise their power responsibly."

Neither man allowed me to use his name. Amazon, they made clear, had long since accumulated sufficient influence over their business to ensure that even these most dedicated defenders of the book—and of the First Amendment—dare not speak openly of the company's predations.

If a single event best illustrates our confusion as to what makes an open market—and the role such markets play in protecting our liberties—it was our failure to respond to Amazon's decision in early 2010 to cut off one of our biggest publishers from its readers.

At the time, Amazon and Macmillan were scrapping over which firm would set the price for Macmillan's e-books. Amazon wanted to price every Macmillan e-book, and indeed every e-book of every publisher, at $9.99 or less. This scorched-earth tactic, which guaranteed that Amazon lost money on many of the e-books it sold, was designed to cement the online retailer's dominance in the nascent market. It also had the effect of persuading customers that this deeply discounted price, which publishers considered ruinously low, was the "natural" one for an e-book.

In January 2010, Macmillan at last claimed the right to set the price for each of its own products as it alone saw fit.[1] Amazon resisted this arrangement, known in publishing as the "agency model." When the two companies deadlocked, Amazon simply turned off the buttons that allowed customers to order Macmillan titles, in both their print and their e-book versions. The reasoning was obvious: the sudden loss of sales, which could amount to a sizable fraction of Macmillan's total revenue, would soon bring the publisher to heel.

This was not the first time Amazon had used this stratagem. The retailer's executives had previously cut off small firms such as Ten Speed Press and Mel-

[1] *For most of the twentieth century, manufacturers enjoyed the right to set minimum prices for their products. In 1975, however, Congress shifted this right to the retailer and the trading company, theoretically to enlist these powers in the fight against inflation. In 2007, the Supreme Court's decision in* Leegin Creative Leather Products v. PSKS, Inc. *shifted at least some of the right to price back to the producer, in an act that surely heartened Macmillan's legal team as it went head-to-head with Amazon. Many other nations, including France, Germany, Japan, and Switzerland, forbid discounting by publishers and booksellers.*

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6 Mon **Ivan Klima**, 8:15 pm
9 Thu **Pico Iyer** and **Rebecca Solnit**, 8 pm
27 Mon ***Our America:* Henry Louis Gates, Jr.** and **Ilan Stavans**, 8:15 pm

MARCH
5 Mon **Words & Music: Federico García Lorca**, 8 pm
26 Mon **Brian Turner** and **Kevin Young**, 8:15 pm

APRIL
2 Mon **Kathryn Harrison** and **Lionel Shriver**, 8 pm
5 Thu **Marilynne Robinson**, 8:15 pm
16 Mon **Francisco Goldman** and **Roger Rosenblatt**, 8 pm
26 Thu **Heather McHugh** and **Lucia Perillo**, 8:15 pm

MAY
13 Sun **John Irving**, 8 pm
14 Mon **Kay Ryan**, 8 pm
17 Thu **John Cheever at 100**, 8 pm

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ville House Publishing for bucking their will. But the fight with Macmillan was by far the most public of these showdowns.

In the late 1970s, when a single book retailer first captured a 10 percent share of the U.S. market, Congress and the regulatory agencies were swift to react. As the head of the Federal Trade Commission put it: "The First Amendment protects us from the chilling shadow of government interference with the media. But are there comparable dangers if other powerful economic or political institutions assume control . . . ?"

In the intervening years, however, we have failed time and again to protect our open market for books. We did nothing as the super chains rolled up retail. We did nothing as six enormous conglomerates—four of them foreign-owned—absorbed many of our publishers. These failures are inexcusable. Yet always we could reassure ourselves that the absolute worst had not come to pass, that there was still some competition in our market for books, that no sovereign boss had emerged.

Today, by contrast, a single private company has captured the ability to dictate terms to the people who publish our books, and hence to the people who write and read our books. It does so by employing the most blatant forms of predatory pricing to destroy its retail competitors. It does so by gathering up massive amounts of information about the most private thoughts, interests, and habits of the American citizen. And all the while, this new sovereign justifies its exercise of raw power in the same way our economic autocrats always do: it claims that the resulting "efficiencies" will serve the interests of the consumer.

Meanwhile, all these manipulations—as audacious as any ever pursued by the antique bosses of steel or oil—have raised only the rarest murmurs of concern from Congress, the Obama Administration, and the FTC. (Antitrust enforcers in Washington and Brussels did launch investigations. Blinded, however, by the Orwellian framework of "consumer welfare," they have mostly taken aim at the publishers, for daring to seek some control over the prices of their own products.)

Not that there have been no warnings at all. In his capacity as head of the Authors Guild, novelist Scott Turow has repeatedly condemned what he says is Amazon's intent to, as he put it recently, "drive paper publishers out of business." Oren Teicher, who heads the American Booksellers Association, told me that "Amazon is threatening the whole ecosystem of how ideas are created, how they are developed, how they are sold."

In the event, Amazon did turn Macmillan's buttons back on (but only after more than a week). And it did allow publishers to price their own e-books (though not their physical books). Still, there is little doubt the individuals who run Amazon got exactly what they wanted. They displayed the full extent of their dominance to the people most directly subject to it.[2] They proved to those same people that most of the American public no longer understands the nature—or the political danger—of that dominance.

In rare moments of disquiet, we like to assure ourselves that all shall turn out well. Surely some Schumpeterian upstart will emerge, as if by magic, to disrupt Amazon's reign. Or Apple or Google will choose to intervene, in some fashion that avoids the political dangers posed by Amazon's control, even though these firms wield powers at least as awesome as the online retailer's.

Then we drift back into our private utopias, there to marvel at all the wonders of modern technology and the freedoms that await us if only we are patient and trust the great corporations to deliver what they promised. And truth be told, it is an amazing world we live in. I mean, who would ever have imagined that one day we'd be able to read *Common Sense* right on our Kindles?

For years, America's upper-middle classes—of all political leanings—have tended to gaze on our political economy with a certain smug self-confidence. Even as our new masters imposed their rule over the markets once run by our farmers and small shopkeepers, and smashed the unions that empowered industrial workers and flight attendants to bargain as equals with their bosses, we turned away.

Servility, our political fabulists assured us, was for the little person. For our refined skills, competition was becoming every day only more intense. America, or at least our cozy enclave within it, was being transformed into a "free-agent nation."

Well, it's clear now that we never quite managed to slip the hold of the ancient truths. It was 150 years ago that Alexis de Tocqueville condemned top-down, long-distance control over any task that a community or individual could manage just as easily on its own. Observing the widespread sycophancy of French society under the July Monarchy, he noted how men routinely subjected to such power become accustomed "to set their own will habitually and completely aside; to submit, not only for once, or upon one point, but in every respect and at all times. Not only, therefore, does this union of power subdue them compulsorily, but it affects their ordinary habits; it isolates them, and then influences each separately."

And so our new masters administer us in America today. They use their great nation-spanning and world-spanning corporations to isolate us as individuals, and then to pit us against our neighbors. They capture and hide away the information that until recently spilled from our open markets. And so they shatter our ability to speak coherently to one another from a base of common experience, to process even the most rudimentary of economic and political facts.

To step outside the open market is to step outside the rule of law and to come under the rule of whim. To step outside the open market is to step outside the rule of reason and to enter a realm of nonsense. We have a choice in America today. We must learn how to make real markets once again—or bend our knees, perhaps forever. ■

[2] *In December, the e-commerce giant continued its assault on brick-and-mortar merchants by offering promotional discounts of up to $5 to customers who scanned the prices of products in a store and then purchased them online at Amazon. This tactic, which Amazon defended in the name of "price transparency," elicited loud protests from retailers as well as Senator Olympia Snowe (R., Maine), who called it "an attack on Main Street businesses."*