America’s BREAK and TAKE Economic System

How Monopolists Drive Inflation Even as They Destroy National Security

Reviving Competition, Part 6:

Rebuilding America’s Economic Leadership and Combatting Corporate Profiteering

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INTRODUCTION:

Over the last year, the American people have learned that extreme and growing concentration of industrial capacity and control has empowered corporations across the economy to engage in the greatest bout of price gouging in nearly a half century. The resulting surge in prices has severely harmed every wage earner and small business owner, and indeed almost every person and every family, in America.

But this *chokeflation* or *stranguflation*, as we might call it, as harmful as it may be, is also merely a symptom of an even more dangerous set of threats to the security and wellbeing of the United States as a whole and to every individual American. That’s because the same concentration of capacity and control that increases the pricing power of corporations also radically increases certain forms of physical risk. This includes the risk of severe shortages of food, drugs, fuel, and housing (and, as we’ve seen in recent weeks, baby formula); of political coercion of individual corporations or the U.S. government by antagonistic foreign powers; of cascading collapses of entire industrial and financial systems; even of war with Russia and/or China.

The concentration of capacity that is behind all these threats to the security and the economic wellbeing is the direct result of anti-democratic competition policies designed precisely to concentrate wealth and power in the hands of the few. Many of these threats have been well understood for years. I personally have studied how concentration threatens the stability and resiliency of industrial systems for more than two decades. But the threats – and their origins in monopolistic concentration of power and control – have been ignored or even suppressed by business executives, financiers, economists, antitrust officials, and other interested actors.

To the extent there is good news it is that this crisis provides a clear and stark imperative to rebuild large portions of America’s industrial system in ways that boost both our security and
our prosperity, including by fostering the sort of competition that drives down prices, boosts wages, and jumpstarts true innovation. This will also require us, along the way, to rebuild our understanding of the purposes and power of America’s traditional antimonopoly regime.

It is a great honor for me to be able to provide this testimony to this subcommittee today. Since 2019, the Subcommittee on Antitrust, Commercial, and Administrative Law under Chairman Cicilline has led the way in understanding the nature and magnitude of the threats by concentration of power and control, their sources in political decision, and how to fix them swiftly and resoundingly. Chairman Cicilline, his staff, and most of the other members of the subcommittee are true heroes, who have already played huge rules in protecting American democracy and national security.

**AMERICA TODAY:**

**DIRE THREATS TO NATIONAL SECURITY AND ECONOMIC WELLBEING**

Extreme concentration of industrial and transportation capacity poses many immediate and direct threats to the security of the United States as a whole, and of individual citizens and families. These include:

- The fragility of entire industrial and financial systems, and the potential for small disruptions in supply or demand to trigger widespread and even catastrophic cascading collapses of essential production and services.
- Direct dependence on China, Russia, and other autocratic and antagonistic regimes for essential goods, components, and services, in ways that expose America as a whole and individual businesses and citizens to coercion, extortion, and control.
- Lack of capacity to produce weapons and other items essential to national defense in a timely and efficient manner.
• Direct dependence on China, Russia, and other autocratic and antagonistic regimes for materials and components needed to produce weapons and other items essential to national defense.

• Structural shortages of grains, cooking oils, fertilizer, fuels and other essential goods due to the political disruption of trading systems characterized by extreme specialization and concentration of production.

• Structural shortages of essential products such as baby formula and pharmaceuticals, due to normal and predictable shut downs of production.

• Structural shortages of goods and components essential to protect the American people against epidemics and other threats to the public health, due to normal and predictable shut downs of production.

This same extreme concentration of industrial and transportation capacity also poses many immediate and direct threats to the economic security, wellbeing, and prosperity of Americans. These include:

• Inflation driven by corporations forging and exploiting manufacturing and processing chokepoints, such as in semiconductors and meat processing.

• Cascading structural inflation in markets downstream from these chokepoints; in the case of semiconductors, for instance, this includes the cost of new cars, rental cars, and used cars.

• Inflation driven by monopolists taking opportunistic advantage of the supply crisis to jack up prices, as we have seen in recent days with the airline and credit card industries.

• The suppression of production technologies and techniques that would lower costs and boost real efficiency, by monopolists exploiting their control of capacity and patent chokepoints and/or simple brute power over markets.

All of these problems are the direct result of bad competition policy over the last 40 years.
A generation ago, United States boasted the most advanced, robust, and thriving industrial system in the world. This was because Americans had used antimonopoly and other competition tools to intentionally engineer our industrial, commercial, and trading systems to break all forms of dangerous dependencies and chokepoints, both at home and abroad, and to ensure competition, resiliency, and innovation. The system that resulted also provided Americans with the ability to use various forms of industrial power to promote peace and progress around the world.

But in the 1980s and 1990s both Republican and Democratic administrations overturned America’s traditional antimonopoly regimes, thus opening the door to extreme concentration of capacity and control both domestically and internationally. In addition to the enforcement of antitrust law itself, U.S. administrations during these years also overturned traditional approaches to the regulation of international trade, the governance of the corporation, patent rights and copyright controls, and the regulation of sectors including communications and transportation.

In the years since, a new generation of monopolists and mercantilists have taken advantage of these changes to chokepoint industrial and transportation capacities, often at locations outside the United States, especially within China. Many of this new generation of monopolists and mercantilists have further exploited their power and control to restrict new investment in plants, machinery, and skills. Worse yet, in many instances, these monopolists have exploited their power and control to severely degrade existing industrial capacities through a profoundly reckless strip mining of the factories, machines, ideas, and skills on which our society depends.

None of these threats are new and none should surprise us today. I myself first detailed the growing fragility of international industrial systems – and America’s growing exposure to the power of China and other nations – in a cover article in *Harper’s* magazine in June 2002, titled

I was not alone. Many others delivered similar warnings. The well-known epidemiologist Michael Osterholm, for instance, in *Foreign Affairs* in July 2005 described how a pandemic would disrupt highly concentrated supply chains, including for such items as the facemasks we need to protect ourselves against the disease itself. In 2010, a World Bank study of the effects of the financial crash of 2008-2009 wrote that concentration within international production networks has an “inherent magnification effect” on shocks. In 2012, Japan’s Ministry of Economy, Trade, and Industry published a study of the Tohoku earthquake of 2011 in which it detailed how concentration within the supply chain had created a “diamond structure” of industrial organization that posed existential threats to production systems. In 2014, MIT’s top Supply Chain expert Yossi Sheffi wrote that the rise of “systemic supply chain risk” had created the threat of “systemic supply chain disruptions” that can cause “the widespread sustained shortage of a product or service with no alternatives or substitutes available.”

**BUILT FOR RESILIENCE**

**AMERICA’S TRADITIONAL INDUSTRIAL STRUCTURES**

The first step to understand the nature and source of today’s supply chain crises is to recognize that the structures of the production systems on which America relies today differ radically from those that served our nation in the past.

For most of the decades after the Second World War, right until the last years of the 20th century, most production of products and components was widely distributed in multiple
First, production was compartmentalized within the borders of the nation state. In the case of products such as automobiles, electronics, metals, and chemicals, for instance, every industrial nation largely produced what it consumed, and then competed with other industrial nations to sell finished goods to smaller nations, and to less industrialized nations.

Second, within most industrialized nations, manufacture of products such as automobiles, electronics, metals, and chemicals was separated into multiple vertically integrated corporations. In the United States, for instance, antimonopoly practice aimed to ensure that at least four corporations competed to make any particular product. Much the same was true of Japan and of Europe as a whole.

Production within corporations was then often further compartmentalized by the distribution of the capacity to manufacture of key components and end products among two or more different factories.

As a result, for most of the 20th century, when something went wrong in one factory or one industrial region somewhere in the world, the overall effects of the disruption were limited to only one company within one country. Further, the widespread distribution of manufacturing capacity and skills that existed then meant that when one company experienced a major supply disruption, it could turn to its competitors for help in keeping its own assembly lines moving and in repairing whatever damage it had suffered.
This structure was no accident. On the contrary it was the direct result of highly intentional and public political decisions that date the founding of the United States.

Two decisions were key to establishing the foundations of the industrial system that served Americans so well over the first 200 years of our nation’s history.

First was the decision never to depend on any single foreign nation for all or even most of any good essential to the security of the United States or of individual Americans. We see this in the rebellion against the British East India Corporation’s trading monopoly, which was obviously a main goal of the Declaration of Independence itself. We see these same ideas made even more clear in the War of 1812, when the American people fought a second war to ensure their complete independence from the British imperial trading system of the 19th Century.

Second was the decision never to accept any similar concentration of control over vital production within the U.S. domestic economy. Here again, a prime goal was to ensure the security of the nation by breaking all dangerous chokepoints on vital industrial and transportation capacities. But we also see a second equally important goal – which is the protection of democracy and individual liberty from all concentrations of industrial and economic power and control.

To achieve this second aim, the American people established the world’s first modern, integrated antimonopoly regime to structure markets, control the power of corporations, ensure a universal distribution of property and education, and to ensure that competition within society was not destructive in nature but helped us to achieve fundamental social, political, and economic goals. We see this dramatically in the design of the Constitution itself, the greatest antimonopoly document in human history. We also see this clearly in the
extremely close public control in 19th Century America over all corporations and all financial and banking activities in within the borders of our nation.

Although this system of antimonopoly control broke down at the end of the 19th Century, by early in the 20th Century the American people were well on their way to updating and adapting their traditional principles and goals for the industrial age. The administrations of Woodrow Wilson, Franklin Roosevelt, and Dwight Eisenhower played especially important roles in updating America’s antimonopoly law and enforcement, as did key leaders from both parties in Congress.

Through the heart of the 20th Century, the American people fully understood that our antimonopoly political and legal regime was comprised of far more than our antitrust laws. Just as was true in the first century of the Republic, the American people understood that regulation of trade, corporate governance, patent rights, banking and finance, and commodities markets must all be designed to reinforce one another in ways that empower us to achieve our aims. Practically this meant establishing various forms of antimonopoly regulatory and enforcement authority in almost every department and agency of government – including the departments of the Treasury, Transportation, and Agriculture, and the Federal Reserve.

Of great importance as well, the American people established clear and simple “bright line” rules to govern the structure of markets and the structure and behavior of all corporations. A prime goal in doing so was to ensure that no enterprise or bank was ever “too big to fail” and that every entrepreneur enjoyed full freedom to fail in their efforts, without posing any sort of threat to any larger system.

One result of this approach to structuring markets and corporations was a great degree of competition over pricing and the quality of products and services, which helped both to drive
down costs and to drive technological innovation forward. A second result was a natural robustness and resiliency within all the industrial and financial systems structured along these lines.

This robustness and resiliency was not simply a happy byproduct of some abstract belief in the value of competition. On the contrary, just as was true in the founding era of the nation, this industrial robustness and resiliency was very much an intended outcome of how Congress and the Executive design these systems in the 20th Century. In part, this is because a key lesson of both world wars was to reinforce the danger of industrial and transportation choke points.

Indeed, the United States government during these years developed a keen understanding of how to exploit any such chokepoints in enemy nations. U.S. strategic bombing doctrine in the Second World War, for instance, focused on identifying and destroying such chokepoints to paralyze the ability of enemy nations to build and deploy weapons, most famously in the raids on Germany’s ball bearing industry, highly concentrated in a single facility in the city of Schweinfurt.

During the Cold War the threat of nuclear conflict strongly reinforced the imperative to ensure that all of our essential industrial, financial, and communications systems were structured in ways that distributed risk widely and safely. The Pentagon, for instance, in the 1950s played a major role in forcing defense and electronics corporations to distribute their industrial capacities away from traditional industrial zones in the Northeast and Midwest, into southern and western states beyond the range of Soviet bombers.

We see similar thinking in the original conception and design of the Internet, which was engineered to route information around any disruption, in ways that ensure there were no chokepoints to exploit.
BUILT TO BREAK

HOW PRO-MONOPOLY THINKING DESTROYED OUR NATION’S SECURITY

When the Reagan administration began to overthrow America’s 200-year-old antimonopoly regime in the early 1980s, it is unlikely that any officials involved in the effort imagined that one result would be to severely compromise America’s national security by creating dangerous chokepoints, including within the borders of foreign adversaries.

On the contrary, in the mid 1980s, when the Japanese government in tandem with Japanese electronics manufacturers attempted to monopolize control over the production of the hardware in personal computers, the Reagan Administration used blunt trade power to block the effort. This included imposing tariffs and import quotas, subsidizing the next generation technologies in the United States, and pressuring U.S. importers to diversify their sourcing of components by buying from non-Japanese manufacturers in South Korea, Taiwan, Singapore, and Europe.

Unfortunately, the Reagan administration’s success at imposing an anti-democratic and pro-monopoly competition regime to promote the concentration of power and control in the hands of the few does mark the beginning of the larger political and policy revolution that has destroyed key aspects of America’s traditional industrial and economic security.

Over the course of the 1980s and 1990s, the Reagan, Bush, and Clinton administrations radically altered every key component of America’s traditional competition regime to favor consolidation of wealth, power, and control in the hands of the few. In doing so, they cleared the way for the radical choke-pointing of industrial capacity and control that so threatens our security – as a nation and as individuals – a today.
Five radical changes in U.S. regulation of industrial competition stand out:

- The 1981 adoption of the “consumer welfare” efficiency test for antitrust enforcement. This changed the goal of enforcement from protecting the bright line rules established by Congress to promoting concentration of capacity and control into duopoly and sometimes straight monopoly structures.

- The 1994 signing of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). This agreement—especially as put into effect through the World Trade Organization beginning in 1995—cleared the way for nations and corporations to use mercantilist means to concentrate capacity and control within their borders.

- The embrace of “shareholder” control over America’s industrial corporations in the 1980s and 1990s, through such actions as the Clinton Administration’s embrace of replacing executive salaries with stock options.

- The concentration of power in ever fewer and ever bigger private equity funds such as Blackstone Group, through such actions as the 1996 National Securities Markets Improvement Act, which eliminated limits on how much money any one hedge fund could pool from institutional investors.

In combination, these and other changes in competition policy cleared the way for the most powerful actors in our political economy to concentrate control over industrial capacity, and then to strip mine those assets by outsourcing that capacity, offshoring that capacity, and in some cases simply destroying that capacity.

The Chicago School overthrow of America’s traditional approach to industrial organization and competition had one other devastating effect. This was to severely limit and in certain respects
entirely destroy our ability as individuals and as a public to understand the effects of this wholesale destruction of industrial capacities and skills. Here again there is no evidence that the advocates of the Chicago School thinking in the Reagan and Clinton administrations intended to destroy our ability to comprehend the effects of the concentration of risk and control that was taking place. On the contrary, their main goal was simply to hide how the concentration of economic power would clear the way for the few to charge higher prices for less, and thereby increase their wealth relative to the rest of society.

The first proof that the new structure of industrial production had become physically unsafe dates to September 21, 1999, when a 7.5 magnitude earthquake struck Taiwan. Within days, computer assembly plants around the world, including in California and Texas, began to shut down. In the weeks to come, Americans learned that a corporation named Taiwan Semiconductor Manufacturing Corporation, backed directly by the Taiwanese government, had concentrated almost all the global capacity to produce certain forms of semiconductors in a few foundries located in the city of Hsinchu.

The 1999 earthquake, in other words, proved that the compartmentalization of production that had protected the American people from the collapse of industrial capacities had begun to break down in fundamentally important ways. Rather than dampen the effects of a localized shock such as an earthquake, the structure of the new system built by the monopolists served both to transmit and amplify the shock.

As Appendix 1 shows we have had many other warnings in the years since, due to the fact that the United States government – operating on Chicago School principles – has allowed a few corporations to place all our eggs in one basket.
As a result we now live in a world where even Normal Accidents, to borrow the phrase of the great systems expert Charles Perrow, can trigger a cascading collapse of industrial and financial systems everywhere.

In some instances, the disruptions affect the production only of a single product, as is true of the recent crash of baby formula or the recent collapse of the systems we rely on for medical masks, testing chemicals, and the iodine solutions required for CT scanners and flouroscopes.¹ In other instances, such as with semiconductors and container shipping, the disruptions can trigger cascading effects through multiple industries at the same time.

Far more terrifying yet, it is not at all hard to image events – such as disruptions to normal trading between China and Taiwan, or China and Japan, or China and the United States, that would result in a catastrophic cascading collapse of most of our key industrial and financial systems, all at once.

TOWARDS A NEW RESILIENCY
AMERICA AND ITS ALLIES AWAKE TO THE CRISIS

The last Biden Administration and a growing number of members of Congress from both parties have started to closely study the effects of the supply chain disruptions of the last two years. In some cases they have also begun to study the sources of problem in the radical revision of competition policy beginning 40 years ago.

The Biden Administration has, for instance, organized deep integrated studies of the structure of supply chain fragility generally, the structures of the semiconductor and battery industries specifically, and all links in the container transportation system, including ocean carriers, ports, railroads, and trucking. In addition, and of fundamental importance, President Biden has condemned the consumer welfare philosophy in the strongest of terms, in a wide ranging
Executive Order on Competition. And Brian Deese, the director of the National Economic Council, recently called for a “Modern American Industrial Strategy,” in remarks at the Economic Club of New York.²

The Department of Defense has also strongly increased its focus on the threats that concentration of capacity and control poses to the industrial systems we rely on for production of weapons and other defense related materials. In a series of reports in recent years, the Pentagon “cites dozens of examples in which the vitality and resiliency of the US industrial base” has been “acutely affected” by “extreme consolidation of supply chains in areas like aircrafts, ground vehicles, machine tools, missiles, and printed circuit boards, and the risk of dependence on sole source vendors in many others.”³

As the Pentagon put it in one report, “the number of cases, typically three to seven levels from the top of the supply chain, where there is just one—often fragile—supplier is staggering. This represents a significant deterioration from just a decade ago when three-to-five suppliers existed for the same component, let alone several decades ago, when the US military generally enjoyed dozens of suppliers for each such item.”

The U.S. Congress has also dramatically improved its work on these issues, hosting hearings on supply chain fragility, the concentration of capacity and control within the semiconductor industry, and the concentration of pharmaceutical ingredients in China, among other issues.

Importantly, we see growing awareness both in the Biden Administration and in Congress that competition policy is composed of far more than antitrust, and that reformers must also play close attention to trade policy and corporate governance, among other factors.⁴
And we see a fast growing embrace both in the United States and among key Allies of the idea that our nations must work closely together to radically revise how we govern our industrial systems to ensure our common security. Or as Treasury Secretary Janet Yellen put it recently, there is a need to restructure our essential production and trading systems around “trusted partners.” Europe’s Commissioner for the Internal Market, Thierry Breton, recently made the same points during a speech in Brussels.

Finally, there is a growing consensus on some of the principles that should be used to structure what the next international industrial system should look like. This includes ideas presented at the Shock Proof conference hosted jointly by The Open Markets Institute and the New Approaches to Economic Challenges program of the Organization for Economic Cooperation and Development (OECD), in April 2020. And it includes a framework proposed in the article “Antimonopoly Power,” published in Foreign Affairs in the July/August 2021 issue.

**THE PATH FORWARD**

**PRACTICAL STEPS TO REBUILD INDUSTRIAL SECURITY**

There is a growing consensus about what we should do to address these problems. But it is important to lay out the full suite of actions that must play a role in building a truly stable and secure industrial system designed to protect the political and economic wellbeing of the American people. Foremost, these include:

- Update our antimonopoly laws to fully address the threats that consolidation poses to our national and individual security, and enforce the laws.
- Overhaul our international trading system to ensure that the rules always promote diversity of production and the distribution of risk. Overhaul our international trading institutions, including restoring the OECD to its proper role as the central venue for education, analysis, and coordination.
• Provide direct public investment to support the rebuilding of vital industrial capacities, especially keystone capacities such as semiconductors, chemicals, electronics components, and essential minerals and materials.
• Severely restrict shareholder control over U.S. corporations that produce vital goods and services, and restore a stakeholder approach to the governance of U.S. corporations.
• Work with allies to eliminate the last vestiges of the “consumer welfare” competition philosophy, wherever it that ideology may affect the security of the United States and its allies. This should include the European Commission’s Directorate General of Competition.
• Restore bright line rules to govern U.S. competition policy, and eliminate the role economists and economic models play in the enforcement of competition policy in the United States.
• Work with key allies to address the extreme concentration of control over all data vital to industrial production and trade, both now and potentially in the future, by breaking the chokeholds of Google, Amazon, Apple, and other digital platforms.

In addition, there are many actions we can take now to address these dangerous concentrations of power, control, and capacity, even as we look to rebuild our larger industrial and regulatory systems. For instance, beginning immediately, we should ensure that all U.S. government departments and agencies use all of their competition enforcement powers to address today’s crisis, as President Biden has instructed. Specifically, we should:

• Demand that the U.S. Department of Agriculture immediately use its full authority to break up and restructure America’s dangerously concentrated meat processing and grain growing and trading industries.
• Demand that U.S. Department of Transportation immediately use its full authority to regulate airlines, railroads, and other transportation monopolies to ensure they provide ample service at a fair cost.
• Demand that the Securities and Exchange Commission and Commodities Future Trading Commission use their full antimonopoly authorities to address the misuse of data by trading corporations, as well as the way commodities are priced within the international system.

• Impose windfall taxes on any monopolist that abuses its power to extort the public.

• Coordinate much more closely with our G7 allies to design and drive forward a common antimonopoly agenda.
APPENDIX I
A LIST OF EVENTS THAT TRIGGERED INDUSTRIAL SHUT DOWNS

• Great Jiji Earthquake in Taiwan, September 21, 1999.
• September 11, 2001 attacks on the World Trade Center and Pentagon.
• SARS Epidemic of 2003.
• Loss of half of U.S. seasonal flu vaccine production capacity in 2004.
• Niigata earthquake in 2007.
• Melamine pet food recall of 2007.
• Wall Street crash of 2008 and effect on international production systems.
• Bailout of General Motors and Chrysler in 2009.
• Iceland volcano explosion of 2010
• China embargo of rare earth shipments to Japan in September 2010.
• Tohoku triple disaster of March 2011.
• Floods in Thailand in July 2011
• Chinese Vitamin C cartel in 2013
• U.S. sanctions Chinese electronics corporation ZTE, April 2018.
• U.S. sanctions Chinese electronics corporation Huawei, Fall 2018
• Collapse of supplies for Covid tests, facemasks, and PPE, 2020.
• Semiconductor shortage begins to affect manufacturing, June 2020.
• Port of Los Angeles/Long Beach begins to shut down, February 2021.
• Colonial Pipeline ransomware attack, May 2021.
• Stranding of the Ever Given Container ship in the Suez Canal, June 2021
• Union Pacific and BNSF report congestion in Chicago, June 2021.
• Baby formula shortage worsens after Abbott plant shut down, Feb. 2022.
• Ukraine war creates shortage of fertilizer, cooking oils, and grains, Feb. 2022.
• U.S. supply of CT scan material cut off by China plant closure, May 2022
**ADDITIONAL READING**

- “Systemic Supply Chain Risk,” Yossi Sheffi and Barry C. Lynn, *The Bridge*, Fall 2014. The first article in which an engineer recognized the systemic nature of international production arrangements and the potential for cascading crashes.
- “How the United States marched the semiconductor industry into its trade war with China,” Chad P. Bown, Peterson Institute for International Economics, December 2020.


• “A Year After Sandy, Food and Fuel Supplies are as Vulnerable as Ever,” Sidhartha Mahanta, *Reuters*, October 28, 2013.


NOTES:

1 Christopher Rowland, “Covid shutdowns in China are delaying medical scans in the U.S.,”
2 Brian Deese, Remarks on a Modern American Industrial Strategy, the White House, April 20, 2022.
3 Asher Schecter, “Pentagon Report Points to Two Major Risks to National Security: Consolidation
4 Rana Foroohar, “The World Needs a 12-Step Programme for Better Trade,” Financial Times, May 8,
5 Alan Rappeport, “Treasury Secretary Janet Yellen Calls for a Reshaping of Global Supply Chains
that are ’Not Secure,’” New York Times, April 21, 2022.
6 Simon Van Dorpe, “EU, US Need to Reduce Supply-Chain Dependency on Single Countries,”
Politico, April 22, 2022.
Foreign Affairs, July/August 2021.