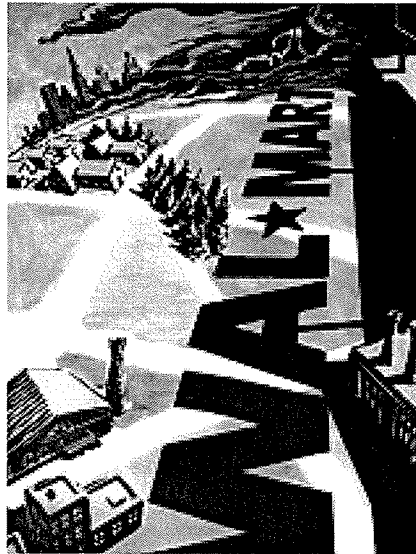


BREAKING THE CHAIN

The antitrust case against Wal-Mart

By Barry C. Lynn

There is an undeniable beauty to laissez-faire theory, with its promise that by struggling against one another, by grasping and elbowing and shouting and shoving, we create efficiency and satisfaction and progress for all. This concept has shaped, at the most fundamental levels, how we understand and engineer our basic freedoms—economic, political, and moral. Until recently, however, most politicians and economists accepted that freedom within the marketplace had to be limited, at least to some degree, by rules designed to ensure general economic and social outcomes. From Adam Smith onward, almost all the great preachers of laissez-faire were tempered by a strain of deep realism. Most accepted that a national economy ultimately served a nation that had to survive in an often brutal world. So, too, did most accept that all economies are characterized by struggles for power and precedence among men and institutions run by men; in other words, that all economies are fundamentally political in nature. And so most accepted the need to use the power of the state—most dramatically in the form of antitrust law—to prevent any one man or firm from consolidating



so much power as to throw off basic balances. The invisible hand of the marketplace, and all that derives from it, had to be protected by the visible hand of government.

It is now twenty-five years since the Reagan Administration eviscerated America's century-long tradition of antitrust enforcement. For a generation, big firms have enjoyed almost complete license to use brute economic force to grow only bigger. And so today we find ourselves in a world dominated by immense global oligopolies that every day further limit the flexibility of our economy and our personal freedom within it. There are still many instances of intense competition—just ask General Motors. But since the great opening of global markets in the early 1990s, the tendency within most of the systems we rely on for manufactured goods, processed commodities, and basic services has been toward ever more extreme consolidation. Consider raw materials: three firms control almost 75 percent of the global market in iron ore. Consider manufacturing services: Owens Illinois has rolled up roughly half the global capacity to supply glass containers. We see extreme consolidation in heavy equipment;

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General Electric builds 60 percent of large gas turbines as well as 60 percent of large wind turbines. In processed materials; Corning produces 60 percent of the glass for flat-screen televisions. Even in sneakers; Nike and Adidas split a 60-percent share of the global market. Consolidation reigns in banking, meatpacking, oil refining, and grains. It holds even in eyeglasses, a field in which the Italian firm Luxottica has captured control over five of the six national outlets in the U.S. market.

The stakes could not be higher. In systems where oligopolies rule unchecked by the state, competition itself is transformed from a free-for-all into a kind of private-property right, a license

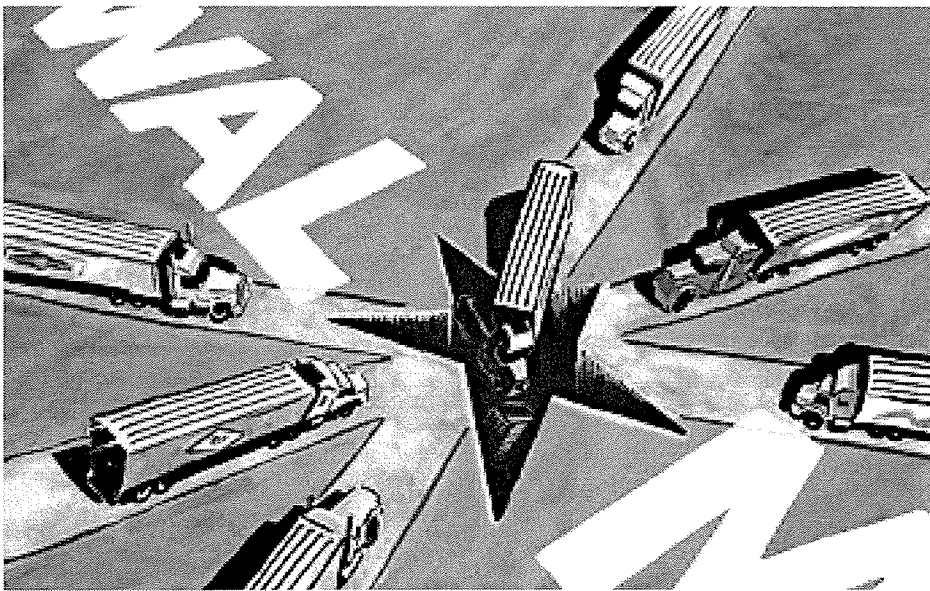
of today's largest firms are built to do just that. The ultimate danger of monopsony is that it deprives the firms that actually manufacture products from obtaining an adequate return on their investment. In other words, the ultimate danger of monopsony is that, over time, it tends to destroy the machines and skills on which we all rely.

Examples of monopsony can be difficult to pin down, but we are in luck in that today we have one of the best illustrations of monopsony pricing power in economic history: Wal-Mart. There is little need to recount at any length the retailer's power over America's marketplace. For our purposes, a few facts will suffice—that one in every five retail sales in America is recorded at Wal-Mart's cash registers; that the firm's revenue nearly equals that of the next six retailers combined; that for many goods, Wal-Mart accounts for upward of 30 percent of U.S. sales, and plans to more than double its sales within the next five years.

The effects of monopsony also can be difficult to pin down. But again we have easy illustrations ready to hand, in the surprising recent tribulations of two iconic American firms—Coca-Cola and Kraft. Coca-Cola is the quintessential seller of a product based on a "secret formula." Recently, though, Wal-Mart decided that it did not approve of the artificial sweetener Coca-Cola planned to use in a new line of diet colas. In a

response that would have been unthinkable just a few years ago, Coca-Cola yielded to the will of an outside firm and designed a second product to meet Wal-Mart's decree. Kraft, meanwhile, is a producer that only four years ago was celebrated by *Forbes* for "leading the charge" in a "brutal industry." Yet since 2004, Kraft has announced plans to shut thirty-nine plants, to let go 13,500 workers, and to eliminate a quarter of its products. Most reports blame soaring prices of energy and raw materials, but in a truly free market Kraft could have pushed at least some of these higher costs on to the consumer. This, however, is no longer possible. Even as costs rise, Wal-Mart and other discounters continue to demand that Kraft lower its prices further. Kraft has found itself with no other choice than to swallow the costs, and hence to tear itself to pieces.

The idea that Wal-Mart's power actually subverts the functioning of the free market will seem shocking to some. After all, the firm rose to dom-



to the powerful to fence off entire marketplaces, there to pit supplier against supplier, community against community, and worker against worker, for their own private gain. When oligopolies rule unchecked by the state, what is perverted is the free market itself, and our freedom as individuals within the economy and ultimately within our political system as well.

Popular notions of oligopoly and monopoly tend to focus on the danger that firms, having gained control over a marketplace, will then be able to dictate an unfairly high price, extracting a sort of tax from society as a whole. But what should concern us today even more is a mirror image of monopoly called "monopsony." Monopsony arises when a firm captures the ability to dictate price to its suppliers, because the suppliers have no real choice other than to deal with that buyer. Not all oligopolists rely on the exercise of monopsony, but a large and growing contingent

