Foreign Affairs (July / August 2021)

Antimonopoly Power

The Global Fight Against Corporate Concentration

By Barry C. Lynn

More than 75 years after the United States began to build a system of liberal trade to help integrate the world around a vision of peaceful economic cooperation, many of the most vital international systems are failing. Nations are fighting over how to secure vaccines, how to divvy up the production of semiconductors, how to respond to China's mercantilism and militarism, how to manage technology and information monopolists such as Facebook and Google, and even how to share the metals necessary to build the batteries for electric cars.

One result of these problems has been a surge in calls for governments to introduce protectionist measures, closely manage domestic industries, and pursue new visions of autarky. But these clashes and government officials' responses to them threaten far more than the world's fragile international industrial and financial systems. They have led states to lose faith in the rule of law and in the intentions of longtime allies. Worse, they have played a role in the disruption of democratic debates and norms in the United States and Europe.

The United States can begin to end these dangers today. Washington can start by acknowledging that most of the current problems can be traced to a single source: *the concentration of control over production and communications in the hands of a few corporations and countries*. U.S. officials should recognize that today's monopolists have done what monopolists have always done, which is to strip out redundancies in order to reap profits, while exploiting dependency for power. This, in turn, will help the United States remember a core idea that guided the country for its first 200 years—*that trade policy is a form of antimonopoly policy* and can be used to break the kinds of concentration that threaten U.S. security.

The United States should begin to use the principles and tools of competition to limit its dependence on any single foreign source of the goods and services on which Americans depend. U.S. officials should use similar tools to eliminate the ability of technology monopolists to disrupt news and information systems in the United States and abroad. Such an approach would force Americans to relearn the core paradox of liberalism: that although liberalism aims to limit the role of government in the political economy and maximize individual liberty, it is a system that must be imposed on corporations and other nations and then protected with the full power of the state. From the first days of the republic, antimonopolism has been the key to the United States' strategic vision—the broad tool that the country has used to build and protect liberal democracy at home and around the world.

EGGS, MEET BASKET

In March, images of the container ship *Ever Given* aground in the Suez Canal became an emblem of the fragility of today's international systems. The stranding triggered a series of disruptions to global transport, demonstrating how the world's maritime cargo systems depend on a handful of chokepoints. Yet such disruptions are among the lesser threats posed by the concentration of capacity and control in global industrial systems.

Consider how the avoidable shortages of masks, testing gear, and vaccines have shattered trust among even the closest and most integrated of neighbors during the COVID-19 pandemic. Or take the semiconductor industry, which provides crucial components for almost every major industrial product in the world today. A single chipmaker, Taiwan Semiconductor Manufacturing Corporation, has nearly monopolized the production of high-end semiconductors, producing almost all of the world's supply of certain types of essential chips. This year, shortfalls at TSMC disrupted production in industries from automobiles to telecommunications: Ford, for instance, projected in April that it would lose half of its second-quarter output. Making matters worse, TSMC has concentrated a substantial amount of its operations on a single island—Taiwan—that bestrides two kinds of fault lines, one physical and the other political. An earthquake or a conflict with China could suddenly shut down all of the corporation's production, with catastrophic effects.

There are similar threats in the communications sector. Amazon, Facebook, and Google have concentrated control over how people exchange information with one another. Their business models—which rely on manipulating what citizens read and buy and which seek to monopolize online advertising revenue—have undermined the free press and the public square in democracies around the world. Just as dangerous, Facebook and Google have sought to intimidate or pay off influential publishers, including News Corp and *The New York Times*, and have punished countries, such as Australia, that have dared to try to regulate them. At the same time, digital interconnection has given foreign states and groups new ways to disrupt everyday life in the United States, as demonstrated by Russia's alleged massive hack of U.S. government computers last year, the ransomware attack on Colonial Pipeline in May, and China's and Russia's routine exploitation of Facebook, Google, and Twitter to influence U.S. political debates.

Then there are more old-fashioned threats. China, for instance, has used its power over essential components and profit flows to coerce Western corporations such as Apple, Disney, and Nike into promoting Chinese propaganda and reinforcing the power of the Chinese state. The country has used that same power to pressure U.S. allies to agree to special deals. In December 2020, less than a month before Joe Biden took office as U.S. president, Germany pushed the EU into a wide-ranging investment agreement with China, a key source of supplies and profits for German car-makers and manufacturers.

The most immediate danger is the way that monopolists and mercantilists have stripped out many of the physical redundancies that once helped ensure the stability and resilience of international systems. There are many examples of how shocks in one place have swiftly

become global problems. The Taiwan earthquake in September 1999, the financial crisis beginning in September 2008, and the Tohoku earthquake in Japan in March 2011 all saw local shocks trigger cascading shutdowns of industrial production around the world. Even more terrifying is the prospect of a political or military action that cuts off access to a key industrial zone. A Chinese move on Taiwan, for instance, would risk not only a major-power war but also the shutdown of much of the world's industrial production.

LIBERTY FROM MONOPOLY

That the United States would one day find itself entirely dependent on any one foreign power for essential products would have appalled the country's founders. The Declaration of Independence was a vision of liberty not merely of person from person but also of nation from nation—and especially of the United States from Great Britain's monopolistic trading system. This vision shaped U.S. policy soon after the country's independence. When the Napoleonic Wars led the British to try to block the United States from trading with the French and others, President Thomas Jefferson imposed an embargo on trade with European powers in an attempt to force them to change course. After that failed, President James Madison launched the War of 1812 against the United Kingdom.

The United States' goal during this era was not to fully break off trade with the British. Rather, Americans sought to build a domestic manufacturing base that was sophisticated and diverse enough to ensure that their country could defend itself in times of crisis. Atop this base, the United States aimed to trade not just with the United Kingdom but also with China, France, Spain, the Baltic states, and British possessions such as Canada—on American ships, with American finance, and on freely negotiated terms. This vision of open trade amounted to an entirely different way to organize the world economy than that of Europe's monarchies, with their competing colonial and mercantilist systems.

Over the long century from Waterloo to World War I, the United States' antimonopoly approach to trade served it well. By early in the nineteenth century, Americans had mastered shipbuilding and arms-making to a degree that empowered them to declare the Monroe Doctrine to protect the new republics of Latin America. By midcentury, U.S. companies had begun to master mass production and even to export the model, as the American inventor and manufacturer Samuel Colt did when his firm set up a firearms factory in London. Decades before the start of the Gilded Age and the rise of Wall Street, Americans had shown they could develop the nation at an astonishing speed.

During these years, the U.S. government also used antimonopoly policy to advance democracy. From the late eighteenth century into the twentieth century, the United States sought to promote the independence of its citizens by distributing land to them and shielding family-sized properties from the reach of corporations and banks. The American antimonopoly vision also played a foundational role in the decades-long fight to break the slave power, which many Americans considered a monopolistic threat to the system of small proprietorship that the U.S. government had cultivated. Internationally, the United States developed the Open Door policy to oppose formal monopolistic colonization not only in the Americas but also around the world, especially in China. Americans viewed this policy partly

as a way to ensure that the federal government did not build the kinds of autocratic institutions necessary to run colonial empires.

From the first days of the republic, antimonopolism has been the key to the United States' strategic vision.

By the time Germany shattered the peace in 1914, U.S. President Woodrow Wilson had succeeded in updating the United States' domestic antimonopoly regime for the industrial age. In his first 16 months in power, Wilson established the foundations of the modern liberal administrative state by passing the Clayton Antitrust Act, the Federal Trade Commission Act, the Federal Reserve Act, tariff reform, and a progressive income tax and by overseeing the first breakup of the communications corporation AT&T. (Twenty years later, Wilson's vision would serve as the intellectual and institutional basis for the New Deal.)

But when World War I ended, Wilson failed to exploit the United States' new standing to finish the job that Jefferson and Madison had started: breaking the monopolistic systems of trade of France and the United Kingdom. Although he had proved a master at imposing liberalism at home, Wilson left the French and the British free to both destroy the German economy through punitive reparations and maintain the colonial regimes that had inspired Germany's play for power.

As World War II drew to a close, however, U.S. Presidents Franklin Roosevelt and Harry Truman showed that they had learned from Wilson's failures. In 1937, the columnist Walter Lippmann had argued that liberal systems must seek to "conserve the existing order of things in the field of ultimate power, but to concede an increasing equality of rights in all other fields." In the Bretton Woods system, the United States aimed to create an open and liberal system of trade, policed by U.S. economic power. Washington also imposed strong antimonopoly regimes on Germany and Japan, reinforced the neutrality of international communications systems, and finally fatally weakened the British and the French imperial regimes. The Truman administration even tried to enact a global antimonopoly policy through the Havana Charter, a 1948 treaty signed by 56 countries to regulate world commerce, but the Senate blocked the effort.

After the communist revolution in China and the outbreak of war in Korea, the U.S. government ratcheted up its efforts to impose a liberal system on the world, seeking to build an integrated economy from West Berlin to Tokyo. The Truman and Eisenhower administrations forced U.S. corporations to export manufacturing technology and capacity to allies while intentionally ceding to them large portions of the U.S. markets for apparel, cars, airplanes, and even electronics. Washington also used the Marshall Plan to push economic integration in Western Europe, giving a boost to the European Coal and Steel Community, which required France and West Germany to renounce some aspects of economic sovereignty and later served as a cornerstone of the European Union.

The result was an international system remarkably like the one Jefferson and Madison had envisioned a century and a half before. And it worked. In one of the great political successes in history, the United States laid the foundation for a liberal, open system of political and

commercial cooperation that spanned half the world and buttressed democracy and prosperity for three generations.

FALSE ECONOMIES

Until the 1970s, the U.S. government approached the political economy much as it had since its founding. The main goals were to ensure liberty and near equality for as many citizens as possible and to protect democracy against concentrations of power. The main philosophical assumptions were that all societies were systems of power and that everything that happened in them was the result of political decisions. The main tools for achieving these social and political ends were antimonopoly law and policy.

But in the early days of Ronald Reagan's presidency, a group of economists and legal scholars led by Milton Friedman, Robert Bork, and Richard Posner set out to replace this long-standing approach. These proponents of neoliberalism, as their worldview was known, argued that the goal of economic policy should be to maximize the material welfare of consumers by promoting more efficient production. These thinkers portrayed the market itself as a sort of metaphysical power that determined many of the outcomes of economic and social life.

The Reagan administration began to promote the new ideas soon after it took office, directing the Justice Department and the Federal Trade Commission to enforce existing antimonopoly laws in ways that prioritized economic efficiency over traditional social and political goals. But Washington did not carry this new thinking beyond the water's edge. Even as U.S. officials worked to concentrate economic power at home, they continued to use the country's trade policy to break concentrations of capacity abroad. Most dramatically, in the mid-1980s, the U.S. government used a sophisticated system of quotas and tariffs to disrupt an effort by Japan to monopolize the computer industry.

After the collapse of the Soviet Union, Americans in both political parties began to push pro-monopoly thinking. At home, the Clinton administration introduced pro-monopoly policy into the banking, communications, defense, finance, and media industries, as well as into corporate governance and patent law. It pushed regulatory agencies abroad, especially in Europe, to adopt similar approaches.

The U.S. government used antimonopoly policy to advance democracy.

The Clinton administration reshaped U.S. trade policy along pro-monopoly lines. Extolling the efficiency of extreme economic specialization among nations, it adopted a utopian vision of a single, world-spanning community forged by the globalization of manufacturing, finance, and communications. As Robert Reich, later Bill Clinton's secretary of labor, argued in 1991, borders were becoming "ever more meaningless" before the "centrifugal forces of the global economy."

Two actions during these years stood out: the creation of the World Trade Organization in 1995 and the eventual lifting of most restrictions on exchange with China. Whereas the early postwar system sought to ensure that democratic governments decided what systems to

internationalize and how, the new WTO freed big corporations and mercantilist nations to concentrate capacity and organize production largely as they saw fit. The immediate result was a burst of monopolization across various industrial sectors by corporations supported by mercantilist governments in Brazil, Germany, Japan, South Korea, and Taiwan. Ultimately, the biggest winner was China, where the state had developed sophisticated systems of surveillance, control, and coercion.

What followed was a revolutionary restructuring of most of the world's production and financial systems. Monopolists worked with mercantilists to transfer entire industries to China and, to a lesser extent, India, Mexico, South Korea, and Taiwan. And whereas most production had historically been compartmentalized within vertically integrated manufacturers that served individual states or regions, the new order often resulted in international networks designed to serve all nations at once.

From the outset, it was clear that the new structure posed many dangers. Three stood out. The new system raised the potential for cascading industrial crashes in the event that a natural disaster or a political shock cut off access to an essential source of supply. It empowered China's authoritarian government to exercise more power over countries that depended on Chinese industrial capacity, including the United States. And it undermined the ability of the United States, European countries, and many other states to surge manufacturing during crises, such as pandemics and wars.

Despite the risks, U.S. policymakers pressed on. For one thing, investors and businesses were profiting from moving industrial capacity offshore. For another, faith in the utopian promise of globalization had taken hold in elite U.S. policy and intellectual circles. That the United States spent over a decade distracted by war in Afghanistan and Iraq after the 9/11 attacks did not help. The upshot was the abandonment of the system the United States had used to keep itself safe and free for two centuries. Thus, the nation was left naked to the winds of chance and the whims of foreign powers.

BREAKING UP IS GOOD TO DO

The election of U.S. President Donald Trump in 2016 marked the end of the Clinton-era approach to trade. Trump campaigned as a protectionist, and once in office, he raised tariffs not only on China but also on the United States' close trading partners. The Trump administration also took the first coherent actions since the Reagan presidency to disrupt offshore concentrations of power, most importantly by sanctioning the Chinese communications corporations Huawei and ZTE. But Trump's team failed to publish a coherent explanation of its vision or to institutionalize its ideas.

Some Democrats welcomed many of Trump's moves on trade, and during the 2020 campaign, neither candidate advocated a return to Clinton-era trade policy. Since taking office in January, Biden has largely shied away from the globalists who dominated the Clinton and Obama administrations, appointing thinkers who endorse a more nationalist approach to manufacturing. The Biden administration has backed those appointments with

plans to rebuild industries producing certain essential goods, such as semiconductors, within U.S. borders.

It is only natural to react to a big problem by locating its causes and doing the opposite. But before U.S. officials formalize a vision of a post-international world, they should recognize that even the most coherent protectionist vision would pose many risks. Protectionism could intensify the scramble for components and raw materials and contribute to the breakdown of international political systems. And by further concentrating capacity and eroding systems of mutual support, protectionist measures could in fact make Americans less safe than they are today.

There is a better way. Instead of aiming to bring production home, the United States should work to break concentrations of power within the international economic system. The United States can do so by using the same tool that protectionists seek to employ—the nation's control over its own borders—but to different ends.

The United States laid the foundation for a liberal, open system of cooperation that spanned half the world.

U.S. officials can learn from three recent antimonopoly models as they develop such a policy. The first is the approach the United States has long taken to the oil sector. Since the end of World War II, Washington has been willing to use the full power of the state—as it did during the Gulf War—to ensure that no one actor can paralyze the United States or its allies by cutting off the supply of oil. The second useful model is the United States' governance of domestic manufacturing from the mid-1930s until the early 1980s, when Washington aimed to ensure there were at least four makers of any good. The results showed that strong competition among four or more players delivered higher quality, faster innovation, lower prices, stronger redundancies, and greater surge capacity. The Reagan administration's response to Japan's play to control the computer industry offers a third model. The most important lesson of these examples is that the United States should enforce simple limits on how much capacity and control any country is allowed to concentrate.

Applied to today's conditions, this lesson would instruct the United States to ensure that no country controls more than, say, a quarter of the manufacturing capacity that supplies U.S. demand for any essential good, component, or service. Once any state fulfills 25 percent of total U.S. demand, Washington should require top-tier manufacturers and importers to turn to suppliers located elsewhere.

The United States should ultimately apply such a rule to all products, components, and services, no matter how trivial they seem, because concentrations of power in one sector can be used to exercise power over others. But given the need to address the most pressing threats swiftly, Washington should start by identifying the concentrated industrial capacities that support entire systems—such as electronics and chemicals—and prioritize actions to distribute productive capacities in those sectors.

U.S. officials should recognize that even the most coherent protectionist vision would pose many risks.

To force compliance with this system of quotas, the Biden administration should instruct the Office of the U.S. Trade Representative to impose stiff tariffs on imported goods or services from any country that supplies more than a quarter of U.S. demand. The administration should also punish any manufacturer or trading company that fails to diversify its sources of supply. The timing of these measures should reflect the fact that it can take a year or more to build new factories. In the case of TSMC's control of advanced semiconductors, for instance, over the next six months, the United States should escalate tariffs against Taiwan and ramp up fines on all corporations that import TSMC semiconductors into the United States. Once the administration has taken such steps, Congress should pass legislation making this new system of tariffs permanent.

This approach would require the U.S. government to look deep inside supply chains. The good news is that U.S. Customs and Border Protection has developed extensive expertise in enforcing "rules of origin" regimes in the years since the signing of the North American Free Trade Agreement in 1993. And in those nearly three decades, the technological ability to trace where components come from has only grown. U.S. Customs and Border Protection could likely upgrade its capabilities to meet the new demands.

Distributing production across more countries would not address all the threats the United States faces from the concentration of power and capacity in nations and businesses. Three others stand out: <u>Big Tech's chokehold on information</u>, news, and communication; the lack of U.S. capacity to produce many of the supplies essential to national security and health emergencies; and the exploitation of patent monopolies by large corporations to limit their rivals' access to essential technologies. In each case, however, the United States can draw lessons from the domestic and international antimonopoly regimes in place before the Reagan and Clinton administrations.

In the case of Facebook, Google, and other corporations that have captured extensive control over global communications and information systems, Washington should view them as utilities and use so-called common carrier rules to limit their ability to manipulate how individuals share information and news with one another. As for products and components vital to national security—such as drug ingredients, military hardware, and N95 masks—Washington should immediately use a combination of tariffs, subsidies, and domestic competition policies to ensure that the United States can produce nearly all of what it needs at home, whenever it is needed. Finally, the United States should eliminate most of the patent rights of dominant corporations, as it did between the late 1930s and the early 1980s, in order to prevent those companies from using patents to reinforce their control over vital goods. The Biden administration's support for waiving the patent rights tied to COVID-19 vaccines marked a good start.

SELLING THE DEAL

The big political question is how such a strategy would be met at home and around the world. In both cases, there is reason for hope.

For U.S. consumers, the costs of such a plan would likely be minimal and short-lived. Manufacturing generally accounts for only a small portion of the final price of most products. And increased competition would swiftly result in more innovation, higher quality, and lower prices. In the unlikely event that higher costs became permanent, the enormous advances in security and safety that the new rules would deliver would be worth the price.

Many U.S. businesses would also likely embrace the plan. By disrupting the power of mercantilists such as China, the new trade rules would increase the freedom of manufacturers, traders, and investors to do business where they want and to avoid business where they don't. The rules' simplicity could also eliminate much of the uncertainty and disorder that U.S. trade policy has seen in recent years.

Selling such a plan internationally would be more challenging. After 75 years of support for multilateral decision-making, the United States would suddenly be acting unilaterally to restructure much of the international economy. But most key allies could swiftly come to understand that the United States' intent is not to concentrate power over day-to-day business in the hands of American officials or corporations but to provide the people of the world with an opportunity to rebuild a liberal international system designed to ensure the security of all nations and promote cooperation and shared prosperity. What is more, given China's dominance of so many industrial systems, any effort to limit the United States' dependence on that country would create a wide array of opportunities for other countries and companies to enter lines of business now dominated by a powerful few. Even Beijing may not entirely oppose such a vision. Although China would lose much of its ability to manipulate other countries and corporations, it would gain from having to worry less about its own dependencies.

Imposed in a neutral fashion, a quota system could encourage other countries and non-U.S. corporations to regulate their trade along similar lines, in search of the same benefits. Indeed, as soon as the United States moves to break the power of monopolists and mercantilists, it will likely find most people and many businesses around the world ready to join Americans in constructing a renewed international system, one that is more open and resilient—and more truly liberal—than any yet built.